









**INTRODUCTION**  
**TO**  
**THE STUDY OF**  
**INDIAN ECONOMICS**



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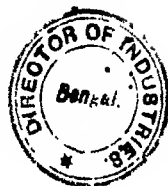
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INTRODUCTION  
TO  
THE STUDY OF  
INDIAN ECONOMICS.

(SECOND EDITION)



BY

VAMAN GOVIND KALE, M.A.

Professor of History & Economics, Fergusson College, Poona.

AUTHOR OF

*Indian Administration, Gokhale and Economic Reforms,  
Indian Industrial and Economic Problems, etc.*

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POONA :

ARTABHUSHAN PRESS

1918

First Edition, June, 1917.

Second Edition, May, 1918.

1056

Printed and published by Anant Vinayak Patwardhan  
at the 'Aryabhushan Press', Poona City

## Preface to the Second Edition.

The favourable reception which the public gave to the first edition, showed that the book satisfied a badly felt want. In bringing out this second edition, I have thoroughly revised the book, expanding most of the chapters for the purpose of a more comprehensive discussion of certain important questions and adding much useful illustrative and statistical information. The effects of the extra-ordinary conditions created by the war have been shown in different places and an attempt has been made to bring the book up-to-date.

FERGUSON COLLEGE,

POONA.

28th May, 1918.

V. G. KALE.



## Preface to the First Edition.

The following pages have been written with the object of meeting the needs of students who require guidance in the study of economic problems pertaining to India and of general readers who wish to get acquainted with the chief features of the economic organization and development of this country. The book does not presume to deal exhaustively with the subjects discussed—volumes will be required to do so. It only seeks to show briefly how the principles of Economics should be applied to Indian conditions, and to place before the reader the different aspects of Indian economic life. As such, the volume is expected to render material help to College students taking up general Economics, and Indian Economics in particular, as special subjects, and to all others who take any interest in the advancement of this country and specially in the promotion of its economic and social well-being.

The general order of treatment usually found in text-books on Economics, has been followed with a view to conduce to the convenience of the student, but in doing so, care has been taken to bring into prominence chief among the peculiar economic problems which require careful study and demand a solution, in this country. The elementary principles have been briefly indicated in each place, and their application to Indian conditions has been pointed out. The economic changes which have taken place and which are in progress, have been traced, and the situation in India is compared with the development and position in Western countries. Very few people in India know the nature and working of even the simple laws which govern the production, exchange and distribution of wealth or are acquainted with the modern machinery of trade, currency, credit and finance. This ignorance lands people into curious mistakes when they try to tackle economic problems; and well-directed attempts at the promotion of progress, are rendered difficult. Equally

dangerous is the easy optimism of those who are led away by appearances and draw comforting conclusions both from the contrasts and the analogies presented by Indian conditions when compared with those prevalent elsewhere. This book, it is hoped, will supply a corrective to both these tendencies and will afford a true insight into the economic situation of India.

" The author has freely stated his own views on each question—this was inevitable and even necessary—and has also given reasons why he holds them. He has taken every care, however, to place the pros and cons in each case before the reader so as to stimulate thought and rouse a spirit of enquiry, and to help him to form an opinion for himself. The reader is referred, in each chapter, to the literature he must go through if he wishes to prosecute his studies further, and the student will find the references helpful in acquiring a more intimate acquaintance with the subjects of study. Only very recently has the importance of economic studies come to be appreciated, and the provision made for them is yet most inadequate. The text-books are very few and the information pertaining to different subjects is scattered through a large number of blue books, reports, monographs &c. The purpose of writing this book will be fully served if it satisfies the want which, the author knows, is keenly felt by students and general readers.

**FERGUSON COLLEGE,**

**POONA.**

*1st June, 1917.*

**V. G. KALE.**

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**THE ARYABHUSHAN PRESS,**

**POONA CITY.**

**AND**

**THE BOMBAY VAIBHAV PRESS,**

*Sandhurst Road,*

**BOMBAY 4.**

**Price Rs. 5. (Exclusive of Postage)**

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# INDIAN ECONOMICS.

## Chapter I.

### NATIONAL ECONOMICS.



#### REFERENCES.

Ranade: *Essays in Indian Economics*; List: *The National System of Political Economy*; J. Taylor Paddle: *A National System of Economics*; Theodore Morison: *Economic Transition in India; and Organisation of an Indian Province*; Moreland: *An Introduction to the Study of Economics*; Lees Smith: *Studies in Indian Economics*; S. V. Katkar: *An Essay on Indian Economics*; D. E. Washa: *Four Papers on Commerce and Industry*; H. Stanley Jevons: *Lecture on Economics in India*; N. M. Munumdar: *Lecture on The Study of Indian Economics*; V. G. Kale: *Indian Industrial and Economic Problems*.

1. **Economics in India** :—It is hardly possible to over-estimate the value of a close and careful study of 'Indian Economics', and the importance of the investigation of economic conditions and of the application of remedies suggested by it for the promotion of the well-being of the mass of the Indian people, has been widely acknowledged. The expression 'Indian Economics' has, however, been often misunderstood, and the idea of its constituting a special branch of study has been even ridiculed. Though a few well-known Indians have zealously devoted themselves to a study of Indian economic problems and have evolved a certain distinctive line of thought as well as substantial and definite results from their investigations, it can hardly be said that a 'school' of economic thought, as such, has been yet established in this country.

It is true that a set of earnest students look at the more prominent questions relating to the economic con-



ditions in India from a particular point of view which does not accord with the angle of vision of the authorities in this country and in England. Nor does that viewpoint commend itself to an influential section of publicists and thinkers whose diagnosis of and remedies for the economic ills of India are entirely different. The problems of trade, land revenue, currency, fiscal policy, caste, and the attitude of the State towards industrial enterprise, are thus subjects on which opinion is sharply divided, and if a generalization may be allowed on such a subject, it may be observed that the trend of economic thought in India is slowly hardening into an Indian 'school.'

'Indian Economics' does not constitute a separate science or a branch of the science of Economics. But Indian Economics may well lay claim to respectful consideration like English Political Economy, for instance, as it deals with peculiar political, social, intellectual and economic conditions which constitute an important subject of research and study. At any rate, there is a general agreement that the progress of the country and the promotion of the welfare of its people, demand a scientific investigation at the hands of those who devote themselves to an inquiry into the material condition of the various classes of the community in India with a view to finding out remedies for its amelioration. This *is* and ought to be the sense of the term 'Indian Economics', and it should not be understood, as it some times is, to signify any fresh contribution to Economic Science or the formulation of new economic theories.

**2. Peculiar Conditions :—**The social, political and industrial organization in India has its special features which require careful study and which can not be made easily to fit in with economic ideas and doctrines which prevail at the moment in Western countries. These countries themselves have passed through a variety of economic

phases and experiences, and India presents economic and social phenomena which have appeared at different stages in the development of western nations. The present industrial organization of Europe and America cannot be said to be the final phase of their evolution which has been brought about by different geographic, climatic, religious and political influences. It is neither final nor, by any means, perfect.

. On what lines India should or will advance cannot be definitely stated. But the unifying effect of British rule in this country, the peace and orderly government which prevail within its borders, the Western education which its people are receiving, the close contact into which this ancient land has been brought with the other countries of the most distant parts of the world, and the hopes and aspirations which have been roused in the public mind about their national destiny by happenings outside, and within its borders, all these are factors whose influence on the development of India has been profound. The social institutions, the religious beliefs and the centuries-old traditions of the Indian people, have been and are being deeply affected by these influences, the result of which is a curious mixture of old and new, Eastern and Western. Consequently Indian economic phenomena have become most complex, though highly interesting, and it is difficult to say whither things are moving. It is the work of the economist to disentangle this mass of confused facts and tendencies and to apply to them the laws of his science in such a way as to suggest the lines along which progress should beneficially be directed.

The vastness of the Indian continent, the diversity of physical and climatic conditions which prevail in its different parts, the variety of planes of intellectual and social progress on which the several Indian peoples stand and the heterogeneity of ideas, usages and institutions which distinguish its numerous communities, constitute

the immensely confused though attractive material on which the student has to work, and sweeping generalizations and theories about India as a whole are absolutely out of the question. At the back of this diversity and overshadowing it, there has always reposed a unity, however, which has not escaped the attention of the stranger. And the influences which British rule has set at work are shaping the economic as well as the political destiny of the land in a manner the tendencies and results of which are discernible to the careful inquirer. In this twentieth century no country in the world can remain in isolation and can help being plunged into the vortex of modern material civilization, and Asiatic nations will no longer be what they were in the last century. Outside observers who do not know the Indian people intimately, therefore, feel that

"there is an urgent need that some one or some group of men should set about trying to create a distinctly Indian political economy. The difference between the problems of England and those of this land must show you that there can be no greater danger than that of blindly following the writings of English economists. They are writings for a country in which the conditions are entirely different to those which obtain here and they have at the back of their minds problems which are everything to them but which are little or nothing to you."\*

**3. Economic Policy :—**Since the rise of the Historical School of Political Economy, economic laws have lost their old dogmatic character, and it is now usual with economists, in dealing with the problems that come within their purview, to make allowance for different circumstances which affect the operation of the laws of their science. The axiomatic assumptions of the older economists are no longer accepted as the starting points of

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\* Prof. Loe Smith : 'Studies in Indian Economics.'

discussion, but the development of every economic phenomenon and institution is carefully traced, and the bearing upon it of political, social and intellectual environments is properly taken into account. The inductive method of inquiry, used in conjunction with the deductive, has strengthened the position of the economic science and has rendered the role of the economist more practical and valuable.

In economic, as in political affairs, two different and conflicting veins of thought are seen running along the development of the policy of the State in this country. Imbued with ideas and theories imbibed in England, the Indian rulers have sometimes attempted to foist upon an alien civilization the systems accepted as correct and beneficial in their own country, and it is no wonder if the doctrines of the orthodox economists should have been applied wholesale to the conditions in India. On the other hand, the peculiar features of the political and social organization in this country have been made the ground of a refusal to adopt in India measures which experience has proved beneficial in England and particularly on the Continent and in America. If *laissez faire* has thus been the keynote of the policy of Government in certain matters, in others it has gone to the other extreme, and some of its measures are national and socialistic to a degree.\*

We have noticed this fact not to emphasise the inconsistency lurking in the policy of the State in India but rather to show that the lessons of the recent development of economic thought have not yet been adequately taken to heart by Government. Students of Indian Economics feel that the experience gained by nations similarly circumstanced as India, is very valuable and that the measures taken by their Governments to promote the national prosperity of their people should be adopted in this country though they may militate against vested in-

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\* See Ramade's Essay on 'Indian Political Economy.'

terests and against pre-conceived notions as to correct economic doctrines which, after all, have relative applicability. Writers of the Historical or National school of Economics, therefore, insist that

"Science must not deny the nature of special national circumstances, nor ignore and misrepresent it, in order to promote cosmopolitan objects. These objects can only be attained by paying regard to nature, and by trying to lead the separate nations in accordance with it to a higher aim."

Apart from the peculiar geographical, climatic, religious and social factors which peculiarly affect the economic condition of a country, there are other currents and cross-currents such as the consciousness of a growing communal and national unity, the struggle for self-preservation, the tendency to imitate and assimilate foreign institutions and ideas and the desire to attain a higher standard of material prosperity, which play an important part in determining the actions of peoples and states. In the construction of 'an independent body of economic doctrines which could be logically deduced from the observed facts of Indian society,'† special national considerations will have their own share. Indian Economics will, in this sense, be as List says, a National Political Economy as distinguished from the cosmopolitical. Economic doctrines must go through the ordeal of applicability to Indian conditions. Mr. Ranade systematically showed how this was necessary and his lead has been followed by several students who have thought and written on the subject. Sir Theodore Morison is right when he observes that the time has not yet come 'when it is possible to attempt a complete statement of the economics of Indian industry,' because 'the material at our disposal is at present too scanty'; yet the pains-taking and observant student knows Indian conditions well enough to enable

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\* Frederic List.

† Theodore Morison.

#### IMPORTANCE OF ECONOMIC STUDIES.

him to discuss and indicate the direction in which things are moving and ought to move.

**4. Importance of Economic Studies:—**That Indian Economics deserves careful study, is a truth which happily has now been recognized, as we have stated above, on all hands. In spite of its great value, however, for the promotion of the well-being of the people of the country, the subject has not received the attention it deserves. An eminent Indian economist remarks :—

“Who will deny that for the future well-being of our national prosperity, the study of economics is of priceless value? Is it not our paramount duty to wake up in this respect, if we are to succeed in the keen competitive race now going forward in the world, in arts and industries, manufactures and commerce, in fact, in all matters which contribute to the larger production of wealth? The universal recognition of economic studies in all the civilized countries of the West is, we need not say, the most gratifying feature of our busy age and the most hopeful sign of the better welfare of the human race in the future. We earnestly put it to our countrymen whether they are to stand aside while the human race is progressing?”\*

Earnest men, convinced of the close relation which subsists between a correct knowledge of economic laws and conditions and the progress of society that may be achieved by the practical application of that knowledge, have always deplored in India the general apathy of the educated classes towards economic studies. This indifference may be due to our defective system of education or to the discouraging conditions that surround the student. Whatever the cause may be, latterly signs of improvement have been visible on all hands. The Universities are taking kindly to the subject, for the teaching of which provision is being made, and the need of a study of economic science and of Indian Economics, has been

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\* D. E. Wiche : “ Four Papers on Commerce and Statistics.”

emphasised by the work of our Legislative Councils and the economic awakening which seems to have come over the country.

Indian Economics, as we have pointed out above, is not a separate science, because it does not seek to discover new laws which were not known to earlier thinkers. We have indeed to observe things as they are, describe the economic activities of the different classes of the population and to study the different economic phenomena like high prices, low wages, expanding trade and increasing rents and have to point out the relation of cause and effect. But we have also to indicate how improvement may be effected by individual and collective action, and how evils may be prevented and remedied. It thus suggests an application of economic laws to Indian conditions and partakes more of the nature of the art of Economics or of a normative science. It is, besides, national in this sense that it deals with the peculiar conditions of India and has in view the special requirements of the material advancement of its people.\*

**5. Theory and its Application :—**The comparative poverty and the general backwardness of the large mass of population in this country, are patent to every one who has devoted any thought to the subject. The standard of living and the earning capacity of the people are extremely low and the scope for improvement is vast. The social structure, the industrial organization and the political status, all require reform, and if a conscious and systematic effort is to be made, it must be based upon accurate knowledge of facts and well-thought-out schemes. What part the State should play in bringing

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\* The world war, attributed largely to the ambition of Germany, to secure economic no less than political predominance, gave a wonderful stimulus to discussions of economic problems relating to different nations and a large amount of literature on the subject has been produced during the last four years.

about this consummation, what steps it ought to be expected to take for that purpose and how the creation of larger quantities of wealth in the country should be facilitated by a change in the attitude of individuals and groups of individuals as well as of the State, are questions the solution of which depends on economic studies, whose results may be relied upon to suggest suitable action.

The growing population of India must be decently housed, fed and clothed and the general level of its living must be raised. The national dividend must increase so that a much larger share of wealth may fall to the lot of each person, enabling him thereby to live a more happy life.\* The present condition in this respect, is, by common consent, not satisfactory, and the problem can be effectively solved only by a fruitful economic study and an earnest endeavour to apply the remedy suggested by it. The work of the economist is cut out for him. What is required is enthusiasm and training.

"That spirit of self-sacrifice is wanted amongst increasing numbers in this great Empire; it is wanted particularly in Economics and the kindred social sciences, for truly the problems of an economic character awaiting solution are gigantic. There are certain ways, too, in which India may be said to be particularly dependent upon the science and the art of economics for progress in social legislation."\*

'We are all economists now'; and many people believe that they know the nature of social ailments and their specifics.

"It is a popular delusion, that, while economic science itself is a difficult subject, the discussion of practical problems, in which economic forces play an important part, can easily be undertaken without special preparation. There is no warrant for this view. The study of economic theory is, indeed, difficult: but the application of the knowledge, which that study wins, to the guidance of practical affairs, is an even heavier

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\* Prof. H. Stanley Jevons: *Economics in India*—Inaugural Lecture. .



task; for, it needs, not only a full understanding of the theory, but also the trained judgment that can balance against one another a large number of qualifying considerations."†

Though the task of students of economics is so very difficult and responsible, its practical usefulness cannot be over-rated. Prof. Pigou goes on to observe:—

"The complicated analyses, which they endeavour to carry through, are instruments for the betterment of human life. The misery and squalor that surround us, the injurious luxury of some wealthy families, the terrible uncertainty over-shadowing many families of the poor,—these are evils too plain to be ignored. Whether the life of man ends with his physical death, or is destined to pass unscathed through that gateway, the good and the evil that he experiences here are real; and to promote the one and restrain the other is a compelling duty. It is easy, if we will, to make the difficulty of the task an excuse for leaving it unattempted. But, difficulties, which deter the weak, are a spur and stimulus to the strong. To display them, not to conceal them, is the way to win worthy recruits. Neither by the timidity that waits at a distance, nor by the wild rush of undisciplined ardour is the summit of great mountains attained. First we must understand our task and prepare for it; and then, in the glow of sunrise, by united effort, we shall at last, perhaps, achieve."

**6. Economic Problems:—**The task of the economist is much more responsible in India than in other countries. His conclusions will run counter to the accepted policy of the State in certain respects and in others they will come in conflict with the pre-conceived notions of the people. Not only has the Indian economist to disentangle complex facts and correctly to interpret them, pointing his finger to the right path of progress to the State and to the various classes of the community, but

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† Prof. Pigou: *Wealth and Welfare*.

he has also to expose himself to the charge of being an impatient idealist, an arm-chair critic or an unpractical, inexperienced and irreverent, radical reformer. He will have to take into account Indian ideals and ways of thought and action and decide how far they may be beneficially retained or suitably modified. He will also have to say things which will prove unpalatable both to the Government and to the people as they refer to the policy and measures of the State and the beliefs and social customs of the different classes of the population. Neither this difficulty nor the other of analysing complex problems and suggesting their solutions, ought to deter the economic student from his important though perhaps a thankless task.

Difficult problems confront the student at every turn. For instance :—Do the peculiar religious beliefs and social usages of India preclude the possibility of a speedy progress in economic uplift of the people? Is it possible for India to stick to her own ideals and make other nations accept them? Should Indian industrial development run along Western lines? Can India be a manufacturing country? Is it practicable and desirable to continue the old indigenous industries, and can small industries compete with foreign manufactures working on a large scale? How do social institutions like caste, affect the economic progress of the people? What change in the political and social institutions of the country is needed to promote rapid advancement? Is the existing educational system of the country calculated to assist in the improvement? Is the present land revenue system in need of reform? How can more taxes be raised from the people without prejudicially affecting their standard of living and how may they be spent to their undoubted benefit? What should be India's fiscal policy and what should be her relations with the other parts of the British Empire and foreign nations? What should be the currency system of India and how should banking be

developed in the country? What is the condition of agricultural and factory labour and how may it be improved? What should be the relations of national, provincial and local finance? Should the State manage its own railways?

**7. The Role of Economics :—**These and other questions of this character assail the Indian economist and demand a solution at his hands. And well may he be weighed down with a sense of responsibility that rests upon his shoulders. Economic inquiry ought not to be merely an intellectual pastime to him. The influence of economic investigation and of the conclusions to which it may point, must be brought to bear upon the life of the community and the actions of the State. In this lies the peculiar importance of the work of the economist.

"The economic student, if he is worthy of his calling, will proceed without fear or favour; he will be tabooed as a socialist by some, as a minion of capitalism by others, as a dreamer by more. But if he preserves his clearness of vision, his openness of mind, his devotion to truth, his sanity of judgment, the deference paid to his views which is even now beginning to be apparent, will be more and more pronounced. The influence of economic conditions on economic theory has been, let us hope, abundantly demonstrated; but the reciprocal influence of economic thought on actual conditions is in danger of being over-looked... Economics is therefore both the creature and the creator. It is the creature of the past; it is the creator of the future. Correctly conceived, adequately outlined, fearlessly developed, it is the prop of ethical upbuilding, it is the basis of social progress."\*

It is in this spirit that Indian economics must be conceived and the Indian economist must work. And the value of economic studies in India cannot be too much emphasised under the conditions which exist at present in the country.

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\* Seligman: *Principles of Economics*.

**3. Summary:—**The so-called natural laws of the classical economists, to whom however belongs the honour of having laid the foundations of a new science, have now been discredited and their touching faith in the efficiency of freedom of competition and in the sufficiency of the spontaneous acts of individuals for the progressive improvement of the human race, has proved to be an illusion. The experience of the world war is not likely to bring the millennium much nearer and there is every probability of nations and groups of nations pursuing a separatist policy and evolving their own economic development irrespectively of, if not at the cost of, the progress of other peoples. This tendency which was steadily growing before the outbreak of the war of Germany, has been strengthened by the struggle, though there are also forces working in the opposite direction which, it is hoped, will exercise a sufficiently strong counteracting influence. Writers used to refer to the economic competition of foreign nations as an "invasion" of markets and now there is ground to believe, the fixed determination to conserve and to exploit natural resources in the interest of their own peoples, will animate the deliberate policy of Governments.

The consciousness of a separate national existence and of separate national interests, is deep-rooted among peoples and there is more conflict than co-operation in the international relations of the world.\* It, therefore, sets limits to the operations of the laws of the orthodox economists and constitutes an important factor in the evolution of national economics. J. T. Peddie observes :—

"The term political economy is an empty phrase ; it signifies nothing in modern practise, it has outlived its usefulness unless it be retained for the purpose of defining the science of *Laissez faire, Laissez passer*, as enunciated by John Stuart Mill and the Cobdenite school. On the other hand, National Economics is a

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\* See Sir Rabindranath Tagore's "Nationalism".

science which constitutes the basis of nationality and is designed to control all the laws and regulations relating to education, chemistry, production, transportation, and banking out of which wealth is created; it seeks to make all dead values remunerative."

Each nation is trying to take lessons of the war to heart. English statesmen and publicists did not wait for the termination of the war to ponder over the measures of reform; and problems were discussed, plans laid out and operations commenced while the bitter struggle dragged its weary length. The need of pursuing the same policy is keenly felt in this country and much more keenly than elsewhere because the cry of Indian Economics is an old one. A silent, social and economic evolution has steadily proceeded in India during the last one hundred years. The railways, the post, the telegraph and the steamer linked India to other countries, and our foreign trade, involving competition with western manufactures, has shaken to its foundations the old fabric of our economic organization. The working of these and other influences has necessitated a systematic study of Indian economic conditions and the adoption of measures to improve it.

The poverty of the mass of the population and the evils which accompany it, constitute the most urgent problem that has got to be faced, and the only way to do it successfully is to make a comprehensive and sustained effort to diagnose the disease and to apply suitable remedies. The goal to be reached is thus the attainment of material prosperity by the Indian nation, and the path to reach it is that of national economics indicated above. The existing methods of the production, circulation and distribution of wealth must be adjusted to the changing conditions and requirements of the people and the State must play an active part in achieving progress. This requires intelligent and patient investigation and also willing and trained workers.

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\* *A National System of Economics.*

## Chapter II.

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### THE INDIAN OUTLOOK.

#### REFERENCES.

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9. **Progress.**—The principle of evolution has been applied to the study of phenomena of social change, and striking results have been obtained. It is now the practice with students to trace the stages through which religion, literature, political institutions, morals, social customs and industrial organization have passed before reaching the particular forms we witness in different countries. This knowledge of the past and the present is a useful guide to the determination of the future, and the statesman and the social reformer may derive ample benefit from a study of social evolution. History records examples of peoples who stagnated and decayed, and we see before our eyes nations which are going forward with rapid strides. Progress is a complex phenomenon. It is quite possible that in a community there may be visible a strong intellectual growth and yet physically, materially and morally it may be on a downward grade. Different social and political conditions act and react upon one another, and progress is the sum-total of development taking place in various directions.

The well-being of a people is not determined only by an increase in the material wealth it produces and has at its disposal. Nevertheless, it is a valuable criterion of its progress. Steady increase of population, improvement of its physique and health, an augmented production of wealth resulting from the application of science to industries, a satisfactory distribution of the nation's income among the various classes of which it is composed, a bettering of the material condition of the masses and the easier accessibility of intellectual and social comforts to continually growing numbers in the community—these are indications of progress, and every nation must strive to attain a higher and higher stage of development.

**10. Wealth and Welfare:**—But material wealth is only one factor in the welfare of a community and by no means the most important factor. Man does not live by bread alone. Materialism which subordinates the internal sources of satisfaction to the external, has been condemned by most religions, and the pursuit of wealth by individuals and the peculiar social organization to which it gives rise, are often regarded as inconsistent with high moral and spiritual ideals.

"The Christian view of wealth would seem to be that wealth is less important for welfare than the internal sources of satisfaction; an increase of wealth is not necessarily an increase of welfare and wealth should not be allowed to stand in the way of other kinds of welfare; it is not possible for a rich man to enter the kingdom of Heaven, but his riches are as great an obstacle to entering the kingdom as a camel's load is to passing through a postern gate."<sup>\*</sup>

Those who take this view do not, of course, contend that an increase of material wealth brings no satisfaction or that it adds nothing to welfare. But they are of opinion that the pleasure contributed by the increase of

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<sup>\*</sup> "Economics for the General Reader" by Henry Clay.

wealth is evanescent and uncertain and is therefore inferior to spiritual welfare.

In all countries and at all times, individuals have preached and even practised the simple life in which wants are reduced to the smallest dimensions, and contentment has been sought which does not depend upon the possession of the goods of this world. Under modern economic organization, and according to modern conceptions of welfare, emphasis is usually laid on external sources of satisfaction though material wealth is not unoften regarded as a potent means to attain a higher end. There is a marked tendency to identify welfare with wealth and the condition of a nation, as of an individual, is gauged by the measure of money income. It was this conception of wealth which brought upon the modern industrial regime and economic doctrines the pious wrath of thinkers like Ruskin and rendered economic science an object of contempt and condemnation because that science was based upon the principle of self-interest.

**II. Ethics and Economics.**—This antagonism between Ethics and Economics is not real. It must be borne in mind that the desire to improve one's material condition, the ambition to rise to a higher status in society and the struggle for the possession of worldly goods, are not the peculiar features only of modern times and of modern civilization. Recent progress of humanity has indeed chiefly lain in man's increasing conquest over the powers of nature and their utilization for the promotion of man's comfort. As new utilities are being discovered, the range of objects calculated to satisfy human wants is extending. More than a hundred years ago, Malthus was at a loss to know how the growing population of the world would be fed, but his fears have been falsified by the continually increasing stock of the necessities of life and even of superfluities, thanks to the



progress of physical science and improvement in man's power of organization. . .

Some people appear to think that the materialism of their generation, indicated by the increasing number of wants and the waxing struggle of man to satisfy them, betrays the degenerate character of the days on which they have fallen, and they cast 'a longing, lingering look behind' on a golden age which they locate somewhere in the past. But they fail to realise that if their line of reasoning were rigidly followed, the happiest times in the history of mankind would be those when man had not yet emerged from the savage state. They will have to set up the primitive man as the happiest human being whose lot they may envy, inasmuch as he had very few wants, and had not much trouble in satisfying them.

It may, however, be contended that we are using the language of exaggeration in presenting the attitude of those who condemn materialism and advocate the reduction of wants in number and intensity. What they perhaps mean is that material wants should be replaced by wants of a nobler kind. Plain living and high thinking is a motto which we respect and thoroughly approve, and no better ideal can be put before an individual or a community. But it is erroneous to suppose that purely economic wants have absolutely no moral value.

"Each new want is an additional bond between men, since we cannot, as a rule, satisfy it without the help of our fellows; in this way the feeling of solidarity becomes stronger. The man who has no wants, the anchorite, is sufficient to himself; this is just what he should not be. As for the working classes, we should be glad, and not concerned, that new wants, and desires torment them unceasingly; were it not for this, they would have remained in perpetual bondage."\*

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\* Charles Gide : *Political Economy*.

In fact, no civilization would have been possible if our ancestors, whose attitude on life is sorely misunderstood and misrepresented, had not striven to promote their material welfare and had remained content with things as they found them.

**12. A Misconception.**—Communities have advanced from one economic stage to another, and at each step they have had their own problems to face and battles to fight. Conditions in our times are quite different from what they were even in the near past. They have grown more complex and the difficulties involved in them are being overcome. Means of communication have become easier, and no people can now live in isolation and remain unaffected by a contact with other communities and nations. New nations have risen and are expanding, and population is everywhere increasing. Peace and democratic government, the advance of the physical sciences, and the extension of international commerce, are forcing new problems to the front and every community has to adjust itself to these changing conditions. Old institutions have grown out of date and are found unsuited and old solutions have lost their applicability. A community will, under these circumstances, stand still at its peril and the bogey of so-called materialism ought not to frighten us while we are engaged in the work of reconstruction and readjustment.

"In every age poets and social reformers have tried to stimulate the people of their own time to a nobler life by enchanting stories of the virtues of the heroes of old. But neither the records of history nor the contemporary observation of backward races, when carefully studied, give any support to the doctrine that man is, on the whole, harder and harsher than he was, or that he was ever more willing than he is now to sacrifice his own happiness for the benefit of others—in cases where custom and law have left him free to

choose his own course. Among races whose intellectual capacity seems not to have developed in any other direction, and who have none of the originating power of modern business men, there will be found many who show an evil sagacity in driving a hard bargain in a market even with their neighbours. No traders are more unscrupulous in taking advantage of the necessities of the unfortunate than the corn-dealers and money-lenders of the East.\*

**13. No Conflict.**—It is a misconception to suppose that man is, on the whole, more dishonest in the midst of modern surroundings than he was in the past and that the modern economic organization has led to demoralization. There is evidence, on the contrary, to believe that ethical considerations are having greater sway over the individual and the national mind and that the social and economic institutions of the present day are making man, on the whole, a better man.† Had this not been so, our international commerce, finance, banking, and concerted action for material and moral improvement on the part of the nations of the world, would have been impossible. These developments presuppose and foster greater mutual trust and sympathy, and the ethical sense of civilised communities is perceptibly growing stronger every day. There is really no antagonism, as we have stated above, between correct economic action and true economic theory. In this connection, Prof. Seligman observes:—

“Sympathy or altruism pushed to an extreme involves the destruction of self and therefore the death of society; self-interest or egoism pushed to an extreme means the destruction of others and therefore likewise the death of society. Social life can endure only through a balancing of these two principles, each reinforced by the other. Since economics, like ethics, is primarily a social science, the true economic action

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\* Marshall—“Economics of Industry.”

† See Rly's “Evolution of Industrial Society.”

must in the long run be an ethical action. An individual may pursue selfish economic ends, and may augment his own wealth at the cost of moral progress; but he is then subordinating public to private considerations. Broadly speaking, regarded from the point of view of society as a whole, what is economically advantageous must in the long run be right; and what is correct in ethics must in the end also be profitable to the business world. The modern economist, therefore, has become just as mindful of the ethical aspects of every economic problem as the modern moralist has been forced to recognize the economic side of his ethical problem."<sup>\*</sup>

Our conclusion, therefore, is that though material wealth is not the only source of welfare, it is not to be despised, because it too assists largely in elevating man to a higher level. Production upon a more extensive scale is placing within the reach of the lower classes the means of intellectual happiness which are no longer the monopoly of the few favourites of fortune. Apart, again, from what the ideal human being should be, man as he has been and is to-day, wants material comforts and our economic organization must be so designed as to provide these in sufficient quantity.

"Wealth gives liberty in this sense: it increases opportunity giving the possessor more choice in the use of his time and fuller means of self-determination or self-expression. The effect of an increase of wealth upon welfare may be neutralized by misuse or waste: the increase must be balanced against any change for the worse in the conditions of production, and allowance made for the indirect effects which an increase in one person's wealth may have upon other people's welfare. But the increase in opportunity remains; there is a potential increase in welfare."<sup>†</sup>

**14. India No Exception.**—This discussion of the character and effects of wealth may appear superfluous or

<sup>\*</sup> Principles of Economics.

<sup>†</sup> Henry Clay: "Economics."

irrelevant. But in a treatise on Indian Economics, a reference to this question is essential inasmuch as it has been discussed in this country from very remote times and two rival schools of thought have been fighting over it. There is also an amount of misconception prevalent about it in India and outside. It is usual to contrast the materialism of the west,\* of 'the land of the mighty dollar', for instance, with the spiritualism of India, and this contrast is sometimes cherished by Indians as a compliment and not often made by outsiders through a feeling of contempt mingled with pity. This difference between the two attitudes on life strikes the superficial observer as fundamental, and Indian people are not unoften relegated to the category of inferior races. But the same judgment could have been passed upon the peoples of Europe in the Middle Ages and may be passed on some of them even at this date.

\* In the words of the late Mr. Justice Ranade, India has been ruralized and at the present moment, stands upon the threshold of the capitalistic and factory regime. Because India is poor, the wants of her people are limited and agriculture is her main industry, it does not follow that she is more spiritual and dreamy than the West or that she is of a weaker mould. There is abundant evidence to prove that India was rich in the goods of this world as well as in spiritual and cultural wealth; that her people desired and enjoyed material pleasures; and that arts were cultivated and the physical sciences were developed in India. The poverty and backwardness of India are due to other causes—she has not been able to march with the times and her progress was arrested. And this does not prove that Indian people are wanting in the sense of enjoyment or that they are so much taken up with the thoughts of the other world that they have no appreciation for mere material pleasures.

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\* Swami Vivekananda's, Speeches and Writings.

**13. Evidence of History.**—The history of India, even of the remote past, is full of evidence which proves that the judgment contested above is the result of ignorance, and is based upon a superficial observation of the existing state of things. The splendid empires of Chundragupta and Ashoka, of Samudragupta and Harsha, of the Moguls and of the Marathas, would have been impossible, if the people of India had scorned the joys of this world and had been incapable of material progress. The extensive commerce this country carried on with the outside world, even in the times of the ancient Greeks and the Romans, bespeaks the enterprise and industrial activities of the Indian people. The cloth, timber, precious stones and spices of India were carried to Persia, Egypt and to the countries situated on the Mediterranean coast.\* The large and beautiful buildings, the canals and public roads of the times of Mahomedan rule, the arts and industries which distinguished India and attracted to her coasts the adventurous merchants of the West, do not certainly support the idea that the Indian spiritual ideal is such as to militate against the prospect of her attaining material prosperity.†

Far from this idea being accepted as a sort of compliment, certain Indian scholars have strongly resented the stigma cast upon Indian civilization and Indian character, and they have demonstrated from facts recorded in documents that for several centuries India was in the vanguard of material as well as of spiritual development.

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\* See "Four Papers on Commerce and Statistics" by Mr. D. R. Wacha.

† Ruskin's exhortation to his countryman to return to the gorgeous East their borrowed ideas about possessive wealth, is an interesting commentary on the opposite view. He says:—"Nay, in some far away and yet undreamt-of hour, I can even imagine that England may cast all thoughts of possessive wealth back to the barbaric nations among whom they first arose, and that while the gauds of the Indus and adamant of Golconda may yet stiffen the housings of the charger, and flash from the turban of the slave, she as a Christian mother, may at last attain to the virtues of a Heathen one, and be able to lead forth her sons saying—'These are My Jewels.'—Unto This Last.

"Much of the prevalent notions regarding the alleged inferiority of the Hindu genius in grappling with the problems of this mundane sphere and the extraneousness of the Indian mind to metaphysical and impractical speculations, can vanish and be proved to be the results of mal-observation and non-observation leading to 'half truths which are really whole errors'—only if we apply the historic-comparative method in studying Indian facts and phenomena. For all indologists should remember that the wonderful achievements of the western nations are strictly speaking only a century old. So that if, while instituting a comparison between Hindu and Occidental cultures on the score of physical 'sciences' properly so called, applied arts and industries, care were taken to eliminate from one's consideration the triumphs and discoveries of the last few generations, the Hindu scientific intellect would be found to have been in no way lagging behind".\*

**16. Civilization in India.**—The Economic condition of England and the organization of British industries were revolutionised in the beginning of the nineteenth century by the use of steam power and the installation of machinery, and Great Britain entered upon a career of industrial prosperity, which made it pre-eminent among the nations of the world. But before the mechanical inventions of the close of the eighteenth century and the inauguration of the factory system in England, the material condition of that country and its civilization were by no means superior to those of India. For a long time the arts and crafts of this country held their own against British manufactures though the latter were supported by machinery, steam power and a national policy of protection. Observers in the eighteenth and the early part of the nineteenth century, were impressed as much with the manufacturing skill and productive capacity as with the mild disposition, simple habits, polished manners and the

\* Sacred Books of the Hindus: Vol. XVI.

religiousness of the Indian masses and Sir Thomas Munro delivered himself with regard to Hindu civilization as follows:—

"I do not understand what is meant by the civilization of the Hindus; in the higher branches of science, in the knowledge of the theory and practice of good Government, and in education which, by banishing prejudice and superstition, opens the minds to receive instruction of every kind from every quarter, they are much inferior to Europeans. But if a good system of agriculture, unrivalled manufacturing skill, a capacity to produce whatever can contribute to convenience or luxury; schools established in every village for teaching reading, writing and arithmetic; the general practice of hospitality and charity amongst each other; and above all, a treatment of the female sex full of confidence, respect and delicacy, are among the signs which denote a civilized people, then the Hindus are not inferior to the nations of Europe; and if civilization is to become an article of trade between the two countries, I am convinced that this country (England) will gain by the import cargo." \*

**17. Religion and Material Progress.**—It is true that Indian philosophy and Indian religions have taught that this world is an illusion and that the goal of man should be total emancipation from the thralldom of egoism. The teaching of Christianity too may, however, be shown to be essentially of the same kind† and it has not stood in the way of the endeavours of Christian nations to attain material prosperity. Several precepts of Christianity and

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\* Quoted by R. C. Dutt in his 'Economic History of British India.'

† "Christianity as a religion is entirely spiritual, occupied solely with heavenly things; the country of the Christian is not of this world. He does his duty indeed, but does it with profound indifference to the good or ill success of his career. Provided he has nothing to reproach himself with, it matters little to him whether things go well or ill here on earth. If the State is prosperous, he hardly dares share in the public happiness, for fear he may grow proud of his country's glory; if the State is languishing, he blesses the hand of God that is hard upon His people"—Rousseau's *The Social Contract*.



the conduct of devout Christians before the epoch of the Renaissance, and even in later times, bear a striking resemblance to the doctrines of Hinduism and the ascetic tendencies of its followers of which so much is made. The *Nirvana* of Buddhism may be regarded even more depressing and antagonistic to material pleasures, but it did not prevent Buddhistic emperors and their subjects from making remarkable progress in politics, arts, architecture and industries. The fact is that, though asceticism and a subordination of the body to the spirit, have been universally held as high ideals, they have rarely influenced in that direction the life of the mass of people in any country and at any time. The spiritual ideal is highly cherished but is seldom translated into action on any large scale though it exercises no small influence upon individual life and social customs. If individuals and nations had been dominated by philosophic speculations and noble religious ideals, there would have been no wars in Europe. This is a statement of facts and not a justification of tendencies.

We are told that the glaring divergence between the precepts of religion and the conduct of its followers does not prove the futility of the former, but a failure of the latter to understand it and act up to it. Religion has to be properly interpreted and adjusted to the position and requirements of the people.

"As a matter of fact, it is not only the question of war that raises a difficulty between the ideals of Jesus and the traditional practice of the churches; the problems of justice and law, of crime and coercion, of marriage and divorce, of industry and thrift, of wealth and commerce in all their forms, are raised in the most uncompromising way by the Sermon on the Mount, which challenges the whole structure and practice of civilized society.....If by "Christian," we are to understand a literal interpretation and carrying out of all the precepts attributed to Jesus, there never has

been and there is not at present, any Christian Church existing on a large scale or influencing national affairs; still less has there ever been, or is there now, a Christian state.”\*

It is, therefore, misleading to represent the Indian people as formed of a stuff and cast in a mould different from those of other races and communities, and the contrast, based upon the divergence between the existing conditions in India and those which prevail elsewhere, reflects characteristics which are not fundamental and permanent but accidental and evanescent.

**18. Spiritual and Material.**—In India itself, the scope and the character of the spiritual and the material have always been correctly understood and the apparent conflict between the two has been satisfactorily disposed of. The controversies over the teachings of the Bhagavadgita which have recently assumed an acute form in Maharashtra, are significant in this connection and prove that the gulf between the ideals of renunciation and action, has been bridged. The Hindu Shastras have enjoined upon the house-holder the performance of his proper duties which it would be a sin on his part to neglect, and the home and family life are invested with a peculiar sanctity. Explaining the character of wealth, Mr. W. H. Moreland says :—

“It is true that in most countries persons will be found who do not wish to have such possessions of their own, and the number of such persons is probably larger in India than in Europe, because of the tendency to adopt an ascetic way of life; the sincere *Sanyasi* or *Fakir* is distinguished from the rest of us mainly by the fact that he does not want to possess things of the kind which we have named. But even in India sincere ascetics form only a very small proportion of the population, and leaving them out of account it is

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\* “The War and Religion”—Alfred Loisy.

correct to say that ordinary people want to possess the same kinds of things, and among the things they want are those which we are considering."\*

The Indian people are, therefore, neither better nor worse than other nations and communities, and their peculiar spiritual and metaphysical characteristics are such as are found among other people similarly circumstanced.

9. "The Hindu has no doubt always placed the transcendental in the foreground of his life's scheme but the Positive Background he has never forgotten or ignored. Rather it is in and through the positive, the secular, and the material that the transcendental, the spiritual, the metaphysical have been allowed to display themselves in Indian culture history. The *Upanishads*, the *Vedānta* and the *Gita* were not the work of imbeciles and weaklings brought up in an asylum of incurables and a hospital of incurables."†

10. **East and West.**—It is said that the complete absorption of the individual in the universal soul and man's emancipation from the fetters of the material world, is the ideal of the Hindu religion. But it is in reality the unique merit of the Bhagvad-gita, the Gospel of the Hindus, that it has reconciled the material to the spiritual and has spiritualised the material. This fact is not generally properly understood, and hence the prevalent misconceptions and exaggerations. A more ardent and faithful exponent of Indian ideals and Indian culture than Sir Rabindranath Tagore, it will be difficult to find, and while in Japan recently, he observed to an American interviewer thus:—

"You ask me to characterise the difference between the Eastern and the Western outlook. That is very difficult although the difference is very real. In the East we are conscious through all individual things of

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\* "An Introduction to Economics."

† The sacred Books of the Hindus, Vol. XVI.

the infinity which embraces them. When I was in England I felt there was an incessant rush of just individual things upon me; it was not a question of noise and bustle and haste only, but the whole atmosphere lacked the sense of infinity. Upon me it had the effect of hampering reflection and meditation. No, I should not describe the difference as one between spirituality and materialism, though that is the way it is often put. I have known too many noble and devoted men in England who practise renunciation and self-sacrifice and strive for humanity to deny your Western civilisation spirituality. No country could stand the shock of this war if it lacked spirituality. But it is a different kind from ours. It is not penetrated as is ours, with the abiding sense of the infinite.

"Do I think that Eastern thought, the Eastern outlook can be reconciled with the mechanism of Western civilisation? I think it can and must be. In the East we have striven to disregard matter, to ignore hunger and thirst, and so escape from their tyranny and emancipate ourselves. But that is no longer possible, at least for the whole nation. You in the West have chosen to conquer matter, and the task of science is to enable all men to have enough to satisfy their material wants, and by subduing matter to achieve freedom for the soul. The East will have to follow the same road, and call in science to its aid."

**20. Indian Ideals.**—The physical features of the country which a community occupies, exercise a considerable influence on the character which the people develop and the civilization which they create.

"Man's character has been moulded by his every day work, and by the material resources which he thereby procures more than by any other influence, unless it be that of his religious ideals; forming agencies of the world's history have been the religious and the economic."<sup>\*</sup>

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<sup>\*</sup> Marshall: Economics of Industry.

And whatever depressing effect climatic conditions and the lavish bounties of nature may appear to have produced upon the Indian races when they are compared with people occupying colder regions, the former do not essentially differ from other communities so as to constitute a type. Indian religions and philosophies are held responsible for the unprogressive character of the people of this country who are supposed to be under the influence of an ideal of pessimism and renunciation. This opinion is largely held by Indians as well as non-Indians and the following typical extracts will illustrate the point we are dealing with :—

"The asectic ideal, which holds in contempt this world and its interests has exercised for centuries past a dominating influence on the Indian mind. It has not, it is true, sufficient reality and strength in it to permanently wean men away from the world, and it proved of little efficacy in diminishing selfishness and pettiness. But it nevertheless produced a baneful result. It took zest out of life. The fashion which it created of talking disparagingly of mundane affairs, operated in no small degree in bringing about our political degeneration and industrial decay. Money and wealth being objects of incessant attack and ridicule, few high-souled persons or men of genius cared to devote their thought or energy to the consideration of the material interest of the country and the utilization and improvement of its resources. The downfall of our industries, arts and trade, is as much due to this cause as to the heavy disabilities and restrictions imposed upon them by the economic and fiscal policy of England and other countries."\*

"The ethical ideals of the Indians are adverse to industrial development on a large scale in as much as they discourage and dissociate industry (except agri-

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\*The Hon'ble Mr. Mudholkar's presidential address: Report of the Industrial Conference, 1908.

culture) from culture. It is true that these ideals are being superseded by western ideals of material development in India but they still influence large sections of our community to a great extent and thus the 'chief' motive impulse which impels people to acquire wealth has much less force in India than in the West."\*

"His (the Hindu) virtues as well as his vices are characterised by passivity. He is a model of patience and peacefulness.....He has far more of the gentler qualities developed by a spiritual and quietist disposition but far less of the industrial and militant qualities of the European."†

"A keen consciousness of the myriads of years with countless changes, has been impressed upon a great bulk of Hindu population to an extent of which Western people cannot have the least idea. How these ideas govern the life of the Indian middle class, is something which cannot possibly be conceived by other races. Under this psychic condition a man may ask as to what his duty is. And he will answer to himself that his duty is nothing. Whatever may happen, the ultimate end of all existing objects, whether living or lifeless, is to be reabsorbed in the absolute."†

With regard to this view of the ideals of passivity, pessimism and renunciation of the Hindus and their influence on the Indian character, we may repeat that the evidence of past history and present experience is entirely against it. As we have observed already, there is abundant evidence to prove that till the use of steam power and machinery revolutionised the processes of industry in England, India could more than hold her own against western nations in the matter of all the means of material prosperity, and Burke described the people of this country towards the close of the 18th century in the following words:—

\* Pramad Nath Bose: "A History of Hindu Civilisation under British Rule."

† S. V. Ketkar: "Indian Economics."

"This multitude of men does not consist of an abject and barbarous populace, much less of savages like the guaranies and chiquitoes who wander on the waste borders of the river of Amazon or the Plate; but a people for ages civilized and cultivated by all the arts of polished life while we were yet in the woods. There have been (and still the skeleton remains) princesses once of great dignity, authority and opulence. There are to be found the chiefs of tribes and nations. There is to be found an ancient, venerable priesthood, the depository of their laws, learning and history, the guides of the people while living and their consolation in death; a nobility of great antiquity and renown, a multitude of cities, not exceeded in population and trade by those of the first class in Europe; merchants and bankers who have once vied in capital with the Bank of England, whose credit has often supported a tottering state and preserved their governments in the midst of war and desolation; millions of industrious manufacturers and mechanics, millions of the most industrious and not of the least intelligent tillers of the earth."\*

**21. Reconciliation.**—The so-called ascetic ideal did not stand in the way of the political, industrial and commercial development which went on for centuries under Hindu and Mahomedan emperors and kings. Shivaji, a devout Hindu, a disciple of Saint Ramadas and an admirer of Saint Tukaram, laid the foundations of the Maratha kingdom with the assistance of leading men of different castes who were all under the spiritual influence of the saints and prophets of Maharashtra, and Brahmin warriors like the first Bajirao under similar influences, built up the Maratha empire. The Hindus had their civil and military administration, their wars and treaties, their palaces and pleasure gardens, their luxuries and superfluities. Pursuit of wealth and glory took the Hindus thousands of miles away in the north and the south, and

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\* Speech made in introducing the East India Bill.

this does not look like an indication of the influence of the ideal of renunciation. If they did not start large factories and banks and did not carry on industries on a large scale, none of the western nations also did it till the close of the eighteenth century. What is said of Hindu ideals to-day can be said of the ideals of western races during the middle ages and three centuries succeeding them,\* and of some European people even to-day.

In attributing the present economic condition of the country to depressing Hindu ideals, it must not be forgotten that a large portion of the Indian population is non-Hindu and is not hampered by those ideals; but the latter has not shown greater economic activity. The statement of the view we have been discussing, is, therefore, a sweeping generalisation and is not warranted by the facts of history and the tendencies of the present day. The economic condition of to-day and the popular attitude on life in India are only a passing phase, a stage of arrested development and of transition from one social economy to another. The fact is that no religion can be more tolerant, elastic and adaptable than the Hindu religion, and it does not and will not place obstacles in the path of material development. Social institutions like those of caste may impede progress for a time but they can be and have been moulded to suit changing conditions.

The acquisitiveness, the impulse which propels individuals to acquire and accumulate wealth, competition, restlessness, ambition, and other industrial and militant qualities of the people of Europe and America, are a growth of the last two centuries. Western nations had to go through different stages of economic growth before they attained the present phase of their evolution. India may have to tread the same path to come in a line with other nations, and it is wrong to throw the blame of her degeneration

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\* H. O. Meredith : *Economic History of England*, pages 28-29.



upon her religion and her culture. It is interesting to notice that India's decay is attributed by the champions of orthodoxy to the adoption by people of modern ideas and of western modes of thought and of conduct! And a revival of the past is preached as a remedy for the present national ills. The true reformer, however, wants a revival of the ancient spirit of sacrifice and duty and not of old usages and institutions.

Some of the wealthiest and most enterprising Indian manufacturers and merchants are people who are little tintured with western civilization. Several of the Indian capitalists, mill-owners and traders who have adopted western methods of making money, are even renowned for their staunch orthodoxy in religious and social matters. The Marwaris, the Jains, the Bhatias, the Khojas and the Memans who are so remarkable for their enterprise and acquisitiveness have had little benefit of English education, and in fact, it is notorious that the small section of the population who have imbibed western culture and are trying to assimilate it, have, with the exception of the Parsees, practically no share in modern wealth-production. It is thus the unwesternised, unenlightened and uncultured classes, fully under the influence of old religious ideas, social customs and prejudices that are in the front rank of commerce, banking and manufactures carried on on western lines, quite out of harmony with supposed Hindu or Muslim ideals. It is the modern methods of the production, exchange and distribution of wealth that have imposed on the west a peculiar stamp of modern civilization, and the rise of large industries and the growth of crowded cities in our midst, proves that Indians can adopt those methods without doing injury to old Hindu ideals.

This point is clearly brought out by the impression the present day Indian carrying on petty trade or industry in the African and other colonies, produces on the

European mind accustomed exclusively to Western ideas and habits. Mr. W. H. Hooker thus writes of him :—.

"The Indian is a gentleman whom, for many reasons, I hold in high esteem, generally speaking. He is not ashamed of his religion nor of his business or trade, and I believe the honest Indian has an equal respect for the honest Englishman.....As far as we, Englishmen, can see, he is British to the backbone, quiet, unassuming in his general bearing, a hard nut to drive a bargain with, as economical as the proverbial Scotchman in business; but outside that, liberal to a degree in his presents to those with whom he has done business.....The Indian was a trader, and an able one, when we English were dressed in woad and wore stone hatchets, and the "hundi" system was established long, long before a bill of exchange was ever written. It is said that an Indian was the first to discover the Victoria Nyanza."\*

**22. Spiritualism.**—Is Indian spiritualism then a myth? Are the noble Indian ideals of life, so often extolled, only imaginary? No! Hindu philosophy does teach the subordination of the flesh and the subjugation of the passions. Wealth and all other affairs pertaining to this world are spoken of in terms of depreciation as a delusion and a snare, and people are exhorted to emancipate themselves from the thralldom of the tyrant of desire. Absorption into the infinite is the goal of human existence and it is to be attained by renunciation. This teaching of philosophy has not, however, made the Hindus monks and anchorites because their practical religion, at the same time, enjoins on them certain duties in this world peculiar to their station in life and their age.

The *Vedas* bespeak a vigorous race of Aryans occupying the northern parts of the land, and evincing a lively desire to possess the goods of this earth and a keen enjoyment of worldly pleasures. There was a

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\* "The Handicap of British Trade" with special regard to East Africa.

reaction at a later stage of development among them, and 'the strong love of the active virtues of fighting and hunting, chivalrous regard for women and the enjoyment of the pleasures of life generally, gave way to a philosophy which regarded life and being itself as a pain and calamity, the bustle of the arts of peace and war as unrelieved weeping and lamentation.'† But the new ideals never fastened themselves on the mass of people and remained as ideals for the few, only to be admired by the many. 'Business is business' is a motto as much with the Indian trader as with his western brother. It does not mean dishonesty, but it does not mean renunciation either. And Hindu law-givers, teachers and philosophers, far from turning their backs upon this world, regard perpetuation of the race, maintenance of the family, and the creation and enjoyment of wealth as essential functions which human beings must perform. Thus

'We find that Manu has preference for *Sanyasa*, but he reconciles it with the claims of life, its duties and responsibilities, by assigning different periods of life for the fulfilment of those claims. His *Ashrama-Vyavastha* or the systematic regulation of duties during different periods of life, makes room for the life of a seer, loving, enjoying, struggling, helping, aspiring house-holder when the senses are keen and limbs vigorous and for a life of a retired, calm, balanced, contemplative *Sanyasi*, when senses are benumbed and life shorn of much of its novelty and charm.\*

The *Dharma Sutras* assign even a higher place to the life of a house-holder. The *Bhagavadgita* distinctly prefers a life of work and disinterested service to that of renunciation. The Divine Song

'Is meant to lift the aspirant from the lower levels of renunciation, where objects are renounced, to the

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† Miscellaneous Writings of Mr. Renade.

\* A Gist of the Gita Rahasya by Mr. V. M. Joshi.

loftier heights where desires are dead, and where the Yogi dwells in calm and ceaseless contemplation while his body and mind are actively employed in discharging the duties that fall to his lot in life. That the spiritual man need not to be a recluse, that union with the divine life may be achieved and maintained in the midst of worldly affairs, that the obstacles to that union be not outside us but within us—such is the central lesson of the Bhavad-Gita.\*†

\* Living in the all-pervading presence of the infinite, man has to do the duty that comes to his hands, dedicating to God every thing he does.

It will thus be clear why the Hindu ideal of renunciation has not turned the Indian people into recluses and how it has only placed the obligation of duty in this life on a higher plane. Hindu philosophy has idealized life and the ideal has exercised a regulating, restraining and guiding influence upon the people. This is the Indian spiritualism which has baffled ‡ western observers and thinkers and misled them. In the works of poets like *Kalidasa*§ we see the effect of this gospel of disinterested duty on the every-day life of the people, and that influence has been at work throughout the whole history of India. The problem before India now is how to adapt herself to changing conditions without falling into the errors into which the west has undoubtedly fallen. While the West has rushed headlong into modern commercialism assisted by the triumphs of physical science, India

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† Preface to Mrs. Annie Besant's Translation of the Bhavad-Gita.

‡ When western students first applied themselves to the study of Indian philosophy and religions, they were struck by the strange theories and practices of the country. Some were perplexed by them, others condemned them as low superstitions and a few were lost in admiration of Indian spirituality and culture. Mrs. Besant said in 1893 :—" For India's future lies not in political ambition ; India's future lies not in political greatness ; India's progress is as a spiritual nation, as the teacher of the world in spiritual truth. Even to-day she stands as a witness against materialism....."—*The Birth of New India*, page 59.

\* † *Raghuvamsh*.

has stagnated and is suffering from the evils attendant on arrested growth. It is indeed desirable that she should assert her old ideal and resume her career of development. But there is danger of apathy, born of stagnation, being mistaken for spiritual calm and of mental depression, resulting from national decay, being misunderstood as philosophic resignation.

Can India assimilate whatever is good in western civilization, "its high individual development, its energetic activity, its clean and successful methods and its complete system of machinery" without sacrificing the essence of her own culture? To many thinkers† this is India's mission :

"It may be the mission of India, clinging fast to the philosophic simplicity of her ethical code, to solve the problems which have baffled the best minds of the west, to build up a sound economic policy along modern scientific lines, and at the same time preserve the simplicity, the dignity, the ethical and spiritual fervour of her people. I can conceive of no loftier mission for India than this; impart purity of life to Europe and attain to her loftier political ideal; inculcate spirituality to the American mind and imbibe the business ways of its merchants."\*

It is believed and stated that India was great when she was spiritually strong. May it not be said that India was spiritually strong when she was great? And may we not hope that India will maintain her spirituality while she will grow in material prosperity?

**23. Test of Religion.**—Ideas about the purpose and function of religion have latterly been undergoing a marked change, and it is being insisted that both morality and religion must stand the test implied in the question,

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† See Sir Rabindranath Tagore's 'Nationalism'.

\* His Highness the Gaikwar's Presidential Address, Industrial Conference, 1906.

"do they tend to promote the well-being, the good of mankind?" And they will be subjected to this test more and more in the days to come. This good of mankind connotes

'Affection, love, family life, motherhood, companionship, the happiness of children; rest after fatigue; achievement after effort; these things being bound up with and depending upon mere material things—health which means food and clothing and cleanliness; leisure and serenity which mean an ordered life, efficiency, the capacity to live in society and to do one's work in the world—and you come back to economics, to sociology, to the science of human society. The material thing is but the expression of still profounder realities which cannot be separated therefrom, because with leisure and a wider outlook come, finer affection—the laughter of children, the grace of women, some assurance that maternity shall be a joy instead of a burden—the keener feeling for life. Bread is not merely the pulverized seed of a plant, it is the bloom on a child's cheek, it is life; for it is human food—that is to say, a part of what human life represents.\*

Social service, social reform and social legislation which are assuming greater importance every day, are only a vivid expression of the ideas we have emphasised above and it is impossible to overemphasise the value of such a movement in a country like India. And there is no reason to suppose that Indian religions will fail to respond to the demands that will be made upon them or that Indian ideas of spiritualism will hamper the material development of the country.

**24. Summary.**—It is generally believed that India is the home of spiritualism which dominates the popular outlook on this mundane existence and which is contrasted with the materialism of western nations. The simple life of the masses, their contentment and even

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\* Norman Angell: *The Foundations of International Policy.*

their fatalism are counted as the products of the teachings of Indian philosophy and religions. Visitors from the West go to India as they would go to an exhibition of rare and antiquated objects—curious to see strange ideals of renunciation and pessimism practised by large numbers of people. India is thus held up to admiration, and her ideals are preached to the materialistic west.

. The self-same ideals of spiritualism and renunciation are regarded by others as primary causes of India's decay and poverty. If people are taught to restrain their material wants and to hate worldly pleasures, it is asked, how is it possible that the country should make any progress? No nation can rise in material prosperity and political status if its aspirations are chilled by a depressing philosophy and its wants are reduced by a rigorous religion. The Indian attitude on life is thus an object both of commendation and condemnation, and these conflicting judgments, passed by Indians themselves as much as by non-Indians, are the result of a misconception of the whole subject.

. Indian religions are not peculiar in their teachings with regard to material wealth. Christianity preaches the same ideals. India comes in for praise or blame because western nations have developed along certain lines of economic and political development, and India still continues to move in the old grooves. The facts that India had her arts, crafts and industries in a prosperous condition centuries ago, that mighty empires rose and fell in the country, that her thriving commerce reached the most distant parts of the world, that her wealth attracted traders and conquerors from afar and that her kings, princes and nobles liberally patronised arts and crafts, are eloquent of the material condition of her people and their ideals.

The development of India was, however, arrested in its course and she stagnated while other nations advanced

ahead of her. The peculiarity of India is that the spiritualism of her people has been reconciled to material advancement. The common man is expected to perform certain duties to himself and to society, and these are enjoined by religion. The very renunciation of Indian philosophy is not incompatible with material progress in as much as men are asked to live in this world and enjoy its pleasures—only bearing in mind that the enjoyment should not degenerate into selfishness, greed and vice. India is in a transitional stage and has to adapt herself to the changed conditions. She must indeed try to avoid the mistakes of the West and to escape the evils which follow in the train of western industrialism. It is, however, a mistake to suppose that the Indian ideal of renunciation has in the past stood in the way of the material progress of the people or is likely to be a bar to economic advancement in the future.

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## Chapter III.

### GIFTS OF NATURE.

#### REFERENCES.

\* H. R. Seager: *Principles of Economics*; C. B. Thurston: *Economic Geography of the British Empire*; Imperial Gazetteer Vol. III; *General Report of the Census of India, 1911*; *Agricultural Statistics of India*; Pramathanath Banerjee: *A Study of Indian Economics*; P. K. Wattel: *The Population Problem in India*; T. H. Holland: *Sketch of the Mineral Resources of India*; *Records of the Geological Survey of India*; G. V. Joshi: *Writings and Speeches*; *Reports of the Indian Industrial Conference*; *Evidence Recorded by the Indian Industries Commission*.

**25. Importance of Production.**—It being admitted that the promotion of the welfare of the people in India, as in other countries, depends upon the wealth that is available to them, the main problem which demands consideration is, how may the supply of necessities and comforts be increased and how may the general standard of living be raised. Whether the income per head of the population in India be Rs. 30 or a little more, the poverty of the country is an undisputed fact. We no doubt hear of poverty and distress in all western countries and of the endeavours which are being made there to cope with the evil. But the economic problem in India in this respect is quite different from the one that confronts other nations.\*

“Poverty in England, or America or Germany is a question of the distribution of wealth. In India it is a question of its production..... Suffice it to say that if it (the income) has mounted to any considerable degree since the Commissioners in 1880 estimated it at £ 2 per caput, it is still infinitely below that of any of the leading nations in Europe, if not actually the

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\* It cannot be said of India as it has been said of England (H. R. Hodgson: *Economic Conditions: 1815-1914*.) that ‘the past has been devoted to the accumulation of wealth, the future is to its more equal distribution.’

lowest in the world. An inquiry into the causes of this poverty inevitably involves a discussion concerning the whole economic problem in India for which this is not the place."\*

Distribution of wealth in India is not, of course, ideal, and there may be room for improvement in it. Wages of labour must certainly be raised and the working classes in India are, in fact, becoming conscious of what is due to them and of what they are defrauded by their adherence to custom. But in order that the share of the workers of different grades and kinds may be increased, the total national income must, in the first place, be considerably augmented, and it must keep pace with the steady growth of population and the requirements of a higher standard of living. By what means this end shall be attained is, therefore, the important problem which demands solution.

"The first consideration is that India is a very poor country. The people as a whole want a large increase in wealth to satisfy their most urgent wants: many of them want more nourishing food, better clothes, better houses, better health, better education, to name only a few of these wants: and any system of production that will give a large increase of wealth is desirable because it will give a chance of satisfying some of these most urgent wants."†

**26. Natural Conditions.**—Land, labour and capital are the three essentials of production, and to make them more efficient, is to provide for a larger production of wealth. India is a vast country and the geographical, geological and climatic conditions vary largely from province to province and from district to district. There are big rivers in northern and southern India whose waters irrigate and fertilise extensive plains and some of them are even navigable. The Indus, the Brahmaputra and the Ganges and its tributaries are fed by the melting snow of

\* Loveday: "The History and Economics of Indian Families."

† W. H. Moreland: *An Introduction to Economics*.

the Himalaya and the enormous rainfall peculiar to it; and the plain of Hindustan has been filled with fertile alluvial soil washed down by the great rivers. The plains of Hindustan and southern India have the advantage of a copious supply of water provided by their large rivers and of the underground supplies tapped by means of wells; and they contain very dense populations compared with other parts of the country. 'The Deccan rivers, like most rivers in plateau regions, flow in deep gorges and are therefore of little value for either irrigation or communication and it will be seen that there is no town of any size or importance on any of the Deccan rivers.'\*

The soil in certain portions of the country is extremely fertile while in others it is very poor. Many big tracts are entirely subject to the vagaries of the rains, the character of the monsoon meaning to them either plenty or famine.\* All degrees of heat and cold are found in the country and the soil therefore produces a variety of crops. Gold, coal, petroleum, manganese and iron are found in considerable quantities in some provinces and the mineral production of the country has been steadily on the increase. Nature is thus bountiful in India, and the raw materials and food grains the soil produces, are of various kinds. India may not be as rich in her mineral wealth as some other countries but her possibilities in this respect are not yet definitely known.

The resources of the country lie almost undiscovered and untapped, and though minerals have been exported from ancient times, it may be found that after all the

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\* Although the great heat and moisture of the Indian summer allow of the growth of abundant crops of rice and millet, the staple foods of the people, the climate is not without its drawbacks. There can be no doubt it is an important factor in causing the deaths of the half million natives who die each year of plague and fevers; and the periodical failure of the wet monsoon, or the coming of too much rain at one period followed by a long drought, has accounted for millions of deaths through famine in past years.—C. B. Thurston: *Economic Geography of the British Empire*.

surface of the earth has been barely scratched. How the rivers of India may, by means of canals, be utilized for the irrigation of thousands upon thousands of acres has been demonstrated by the successful irrigation schemes carried out in the Punjab and elsewhere. And the Tata hydro-electric works at Lonawla, show how motive power, capable of working a number of factories at a distance, may be created by means of water stored in big lakes formed in suitable valleys and fed with the rainfall which may be very heavy there.

The forest produce of India too is varied and rich and its economic possibilities are steadily being realised. Excellent qualities of timber and fibres, grasses, distillation products, oil seeds, tan and dyes, gums and resins, rubber, bamboos, canes, drugs and spices are found in these forests which are now, in British India, under State control. Many of these products are calculated to supply valuable raw material for industries, and wood pulp, paper, tanning materials, matches, rosin and turpentine may be manufactured out of them on a large scale. Varied climate and soil, hills and rivers, forests and mineral deposits, constitute the abundant wealth of India which has earned for her the name 'land of gold,' and Indian tea, jute, cotton, sugar-cane, oil-seeds, opium and indigo have established their reputation in the whole world.

As to minerals alone India has had a distinguished record.

"So richly endowed by the bounty of Nature, India from the earliest times of which there is any record down to within a few years of the British occupation was one of the foremost mining countries in the world. She was able not only to meet from her resources her own local wants, but also sent to far-off lands some of the finest products of her mines. For centuries and up till 1727 when Brazil entered the market with its cheaper stones obtained from the mines of Minas Geraes, India alone supplied diamonds to the world.

The koh-i-noor of the British Crown, the Orloff in the sceptre of the Russian Czar, the Pitta diamond among the state jewels in France, and several other, in the possession of the princes and magnates of Europe, are from our mines. China got her silver from us. Our iron was held to be of superior quality and was much sought after by the foreign merchants. Indian steel was highly prized for its fine temper and found ready sale in the markets of Persia and England."\*

**27. Land.**—As the most fruitful source of livelihood for men and cattle, the soil has ever been regarded with reverence in India, and the agricultural industry occupies a high place in public estimation. In quite a Physiocratic fashion, the mass of Indian people attribute to the soil almost exclusive productive capacity, and other industries appear to them as more or less parasitical. This is but natural in a social economy in which agriculture predominates, and the deep attachment of the people to the soil, is thus easily accounted for. About 72 per cent. of the Indian population subsists upon agriculture, and with the disappearance of the indigenous industries, this percentage has been steadily growing. Barely one acre of land is available per head of the agricultural population and it would not be surprising if the soil felt increasing pressure. The following figures† are instructive in this connection:—

*Classification of Area.*

(1915-16)

	Acres.
Area by professional survey ...	619,521,000
Area under forest... ..	85,079,000
Area not available for cultivation ...	143,930,000
Cultivable waste ... ..	113,820,000
Fallow land ... ..	51,731,000
Net area cropped ... ..	221,778,000
Irrigated area ... ..	48,898,000

\* Mr. Joshi's Writings and Speeches.

† Agricultural Statistics of India, 1915-16.

# LAND.

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The proportion of cropped to total area and the number of population per 100 acres of cropped area in each province are stated below :—

	Proportion of cropped to total area	Population per 100 acres of cropped area.
Bombay	52 per cent.	60
Delhi	50 " "	233
Bihar and Orissa	49 " "	133
United Provinces	49 " "	142
Bengal	48 " "	184
Punjab	40 " "	81
Madras	38 " "	121
C. P. and Berar	38 " "	57
North-West Frontier Province	28 " "	94
Manipur	23 " "	92
Ajmeer-Merwara	16 " "	177
Assam	19 " "	114
Coorg	14 " "	127
Sind	14 " "	11
Burma	13 " "	74

If areas cropped more than once are taken as separate areas, for each crop, the gross area cropped in 1913-14 amounted to 246,989,000 acres and was distributed among different crops as under :—

	Acres	Per Cent. of total
Food grains	191,573,000	77.7
Condiments & Spices	1,288,000	0.5
Sugar	2,708,000	1.1
Fruits & Vegetables	5,721,000	2.3
Miscellaneous food crops	1,116,000	0.5
<b>Total food crops.</b>	<b>202,405,000</b>	<b>82.1</b>

Oil-seeds	14,658,000	6'0
Fibres	19,895,000	8'0
Drugs	588,000	0'2
Dyes and narcotics	1,949,000	0'8
Fodder crops	5,910,000	2'4
Miscellaneous non-food		
crops	1,113,000	0'5
Total non-food crops	44,113,000	17'9

To relieve the steadily increasing pressure of the population upon the soil, not much cultivable area is now available, though what is called cultivable waste, may to a certain extent, be brought under the plough. Reliance must, therefore, be mainly placed upon intensive farming.

"Subtracting the land thus utilised for supplying foreign markets from the total area under cultivation, we shall find that what is left over does not represent more than two-thirds of an acre per head of the total Indian population. India, therefore, feeds and to some extent clothes its population from what two-thirds of an acre per head can produce. There is probably no country in the world where the land is required to do so much."\*

The fact of the recent increase of the population dependent upon agriculture, is of great economic significance. It is an indication of the decadence of the old handicrafts and the growing dependence of the mass of the people upon agriculture. By some this development is explained as the result of the more remunerative character of farming, particularly the cultivation of the commercial crops which command high prices in the outside markets.

"On the whole, though no great reliance can be placed on the classification of the population by occupation in the census returns, there is no doubt that the number of agriculturists has increased more in pro-

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\* Peoples and Problems of India—by Sir T. W. Holderness.

portion than either the total population or the total number of labourers. The increase in the number of agriculturists may be taken as indicating that the profits of agriculture were such as to attract workers from other occupations to agriculture."†

This does not appear to us a correct explanation, and it can be proved that artisans and craftsmen who formerly could make a living by their traditional callings, have been driven to the soil by the decay of their ancestral industries, caused by the competition of foreign manufactures.‡

It cannot be denied that the high prices of agricultural produce such as cotton, wheat, jute and oil-seeds mean a larger margin of profit to the cultivator, and in certain parts of the country, the agricultural population has benefited by the foreign demand. Higher rents are also being paid by cultivators to their land-lords. It must be remembered, however, that Indian agriculturists are not like farmers in the West. Lack of knowledge, co-operation, enterprise and means prevents the cultivators from reaping the full benefit of high prices and mobility is conspicuous by its absence among them. Non-agriculturists will not take to land unless they are forced to do so by the grim prospect of starvation though they may combine farming with their proper occupation. They will usually stick to their precarious traditional calling rather than enter a more promising field of labour. The suggestion, that the agricultural population has increased on account of the superior attractions of the agricultural industry and the prospect of higher profit, is, therefore, unwarranted. There are indeed a few well-to-do people, professional men, pensioners and others who invest their savings in land on account of the peculiar security it affords. But agriculture is rarely remunerative in their hands and their numbers as well as those of artisans and

† K. L. Das's Report on High Prices.

‡ See Chapter on Production and Population.



others who purchase lands with the object of carrying on farming, must be extremely small.

**28. Pressure on the Land.**—The latest census report, in the chapter on occupations, throws much useful light on this subject. We there read :—

"On the one hand, the rise in the price of food grains has made agriculture more profitable, while, on the other, the profits of the various artisan classes have been diminished, owing to the growing competition of machine-made goods, both locally manufactured and imported, with the result that these classes show a growing tendency to abandon their traditional occupations."

And further :—

"The local cobbler on the other hand, having to pay more for his raw material and feeling the increasing competition of machine-made goods, has been tempted to abandon his hereditary craft for some other means of livelihood, such as agriculture or work in factories of various kinds."

Those artisans with whom agriculture was a subsidiary calling, are being compelled to throw up their proper crafts and to take to the overcrowded occupation of farming. The Census Report observes :—

"The subsidiary table shows that many village artisans are also partly dependent on agriculture. This supports the statement made elsewhere that there is at present a tendency for these persons to abandon their hereditary occupations in favour of farming."\*

Though there are certain areas in the country which may be developed, the scope for extensive farming is now extremely limited. The land in most parts of India has been under cultivation for centuries and persistent and peaceful cultivation under British rule is indubitably sub-

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\* See the Author's article on this subject in the *Mysore Economic Journal* for February, 1916.

ject to the law of diminishing returns. The operation of this law can only be arrested by improved methods of farming and the application of more capital to the land.

**29. Fertility of Soil.**—It is a common belief among Indian cultivators that the soil is not as fertile to-day as it was in the past. This notion can not be disposed of as being a mere prejudice and be put down to the natural human disposition to disparage the present and exalt the irrevocable past. Increasing population and unbroken peace have allowed land no rest, and the fertility exhausted by continued cultivation has not been restored to the soil by the use of rich manures.

‘With the increase in the acreage of cultivation, especially of less fertile soils, the average outturn is bound to decrease, but to establish a deterioration it must be shown that the land which was under cultivation in former times now yields less than it did before’,

and official reports on this point would seem to lead to the conclusion that the theory of deterioration

‘has been frequently exaggerated though it is not denied that in several areas the cultivation of land must have become less efficient than before.’

What are called the natural and original powers of the soil vary from one part of the country to another and determine the character of the crops raised there and also the standard of living of the cultivators. The cultivator in the Konkan, for instance, can, with difficulty, eke out a bare subsistence while his brother in Khandesh or Satara gets rich and bumper crops out of his rich soil. The farmer cannot, however, depend upon the natural properties of the soil to provide a perennial and uniform source of income even where nature is bountiful as those powers must be steadily exhausted unless they are replenished from time to time. It is difficult to distinguish between what man owes to nature and what he himself contributes to the fertility of the soil by his own exertions, putting in of manures, rotation of crops and so forth.

Where land is abundant, as in a newly settled colony, extensive cultivation is the rule, but in old countries, the demands of growing population have to be met by resorting to methods of intensive cultivation. Rapid and cheap means of transport have, no doubt, brought the old world into closer touch with the new and the food problem of the former has been, to a large extent, solved. But India cannot afford the means to buy her food from outside and the urgency of intensive cultivation is, in her case, extremely great.

The demand for the agricultural products of this country in the world's markets, is bound to increase steadily and there will be a scramble for the possession of Indian-grown raw materials among foreign nations. Owing to foreign demand, the prices of our raw products are growing higher, and they will constitute an immensely valuable source of wealth for the country. The productive capacity of the soil must, however, be increased if any substantial benefit is to be reaped by the people in the face of increasing population and of rising prices all round. This would require more capital, better methods of farming, improved implements and the systematic organization of the agricultural industry.

**30. Value of Land.**—So far we have confined ourselves only to the natural properties and advantages of the soil and to the varying degrees of value they confer on land. Changes in social conditions, improvements in the means of transportation, creation and expansion of markets also exercise similar influence and land which is comparatively unimportant to-day will be extremely valuable to-morrow. Lands which were on the margin of production a few years ago, fetch high rents to-day on account of remunerative crops like cotton groundnuts, and sugarcane, being grown in them.

Lands which are brought in contact with new internal or external markets by railways become immediately

more remunerative and this phenomenon is particularly noticeable in the case of lands in the vicinity of towns. Intensive farming becomes possible in these cases and the saving made in the cost of transportation and the high prices obtained for the products of suburban farms confer higher values upon lands. Social causes do for these lands what natural gifts do for others.

When we consider the changes in the values of urban and suburban lands used and capable of being used as building sites, the phenomenon is more interesting still. The growing population, and the expanding trade and industries of towns lead to an increasing demand for lands and their values have been steadily going up. Ground rents are consequently rising at a rapid rate in all towns and in centres of industry and trade. The housing problem is, therefore, becoming every day more difficult and demands serious consideration at the hands of municipalities and the State. Lands fetch fabulous prices in Bombay and even in Poona, plots which could barely yield Rs. 12 per acre fifteen years ago, are being let to-day at Rs. 200 an acre. Exercise of foresight has, therefore, become necessary in the development of urban and suburban areas and town-planning schemes are being undertaken in several places.

**31. Minerals.**—We have already stated that the possibilities of the development of mineral production in India are considerable.

“The feature that stands out most prominently in a survey of the mineral resources of India is the fact that while striking progress has been made in recent years in opening out deposits from which products are obtained suitable for export or for consumption in the country by what may be called direct processes, very little has hitherto been done to develop those minerals that are associated with the more complicated metallurgical and chemical industries. The explanation

is to be found, to a great extent, in the importance of bye-products in modern metallurgical and chemical developments.\*

It is, therefore, maintained that

"A country like India must be content to pay the tax of imports until industries arise demanding a sufficient number of chemical products to complete an economic cycle, and India does, in fact, import at present large quantities of metals and mineral products while possessing in many cases the mineral resources required to supply the demands in question. There is thus great scope for the development of mineral industries for supplying the internal requirements of the country, quite apart from any markets that might be found abroad."\*

What progress has been made during the last fifteen years in the growth of mineral production, may be seen from the following comparative figures :—

	Quantities.		Value.	
	1901	1916	1901	1916
			£	£
Coal (tons)	6,635,727	12,254,309	1,323,372	3,878,564
Gold (ounces)	532,303	598,370	1,931,030	2,303,023
Petroleum (thousands of gallons)	50,075	297,189	204,342	1,119,405
Manganese ore (tons)	157,736	645,204	215,934	1,487,026
Salt (tons)	1,102,039	1,488,649	374,133	728,358
Saltpetre (tons)	15,555	25,056	191,904	607,488
Tungsten ore (tons)	...	3,761	.....	466,604
Iron ore (tons)	49,798	411,757	7,532	37,911

\* Decennial Moral and Material Progress Report. See also Sir T. Holland's *Sketch of the Mineral Resources of India*.

**32. Conservation of Mineral Wealth.**—With every crop taken out of the soil, we steadily exhaust its productive capacity, and it is by means of manures that the fertility is restored to it. But in the case of the extraction of minerals, such restoratives are not available. An increased supply can be obtained only by going deeper into the mines, and though the operation of the law of diminishing returns may be checked by improvements, a time comes when the cost becomes prohibitive and the supply of minerals is exhausted. The prospect of the exhaustion of the English Coal Fields, has led some people to advocate the taking of measures to conserve the supply, though the comforting assurance is given by some that by the time the prophesy is fulfilled a century or two hence, a cheap substitute for coal will already have been found.

That fate of the stock of subterranean wealth raises similar apprehensions in India and the problem is further complicated here by the fact that the people of this country have little share in the wealth extracted. The minerals once taken out, cannot be restored and as the mines are at present exploited, in the absence of indigenous enterprise, the mineral wealth does not remain in the country; nor does the country get an equivalent for it.

"In view of the fact that minerals cannot be replaced or re-plenished, a special, heavy responsibility lies upon both the people and the Government. The desire to stimulate production cannot justify the complete handing over of mines to persons who have no permanent interest in the land. On the one hand, our people ought to realise that in the interests of the country itself our minerals have to be worked. No serious harm certainly can result from postponing for even a quarter of a century the extraction of precious metals like gold and precious stones like rubies or diamonds. On the other hand, as trustees of the permanent welfare of the Indian people the Government

should recognise the serious injury that would be caused to those interests from exploitation by outsiders who have no permanent stake in the country.”\*

**33. Summary.**—Though not quite lavish, Nature is sufficiently bountiful towards India. We have a variety of soils which produce raw materials of the greatest value to man so that if India were to be cut off from the outside world, the country could be self-supporting. Some of the products of the Indian soil like jute, cotton, tea, coffee, indigo, sugarcane, oil seeds, rice, and so forth, are of great economic value and India produces her own food supply. The mineral possibilities of the country are believed to be great and large industries are capable of being built up in connection with them.

The Indian forests abound in a variety of timbers and grasses and if they are properly conserved, they may constitute a rich source of wealth. But the soil must continue to be the mainstay of the bulk of the population and the limits of extensive cultivation have long been reached. A larger amount of food supply must be got out of the soil if it is decently to support the growing population. Among the conclusions Mr. Wattal† has derived from his elaborate study of census and agricultural statistics, are the following:—That though there are sparsely populated areas they are not so because they are awaiting development but because the character of the soil is inhospitable and there is no further room for the development of cultivation; that in all the old Provinces the pressure of population on cultivation is fairly intense; that the average per unit of the agriculturist population hardly exceeds an acre and a quarter and shows a tendency to fall; that a development of the means of subsistence in the circumstances of the country can only mean a

\* Presidential Address by the Hon'ble Mr. Mudholkar at the Madras Industrial Conference, 1908.

† The Population Problem in India.

development of irrigation, but irrigation has no very bright future before it, and that the agriculturist population is increasing at the expense of the industrial and trading populations.

This picture may appear to be overdrawn but some of its touches are true to nature. The utilization of the water of rivers which goes to waste, the use of rich manures and the adoption of better methods, may, of course, counteract, to a certain extent, the growing pressure on land but there are enormous difficulties in the way, and other remedies must also be devised. The courses of rivers may be regulated and the water supply may be improved. But there are natural forces which appear to be beyond human control and the prospects for the large agricultural population at the mercy of the monsoons and dealing with not a very productive soil, cannot be very reassuring, unless organized and comprehensive effort is made to develop the resources of the country. The situation appears gloomy as things stand; but there are abundant possibilities and the prospect may be improved if the opportunities are properly utilised.





## Chapter IV.

### HUMAN EFFORT.

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**34. Value of Labour.**—Rivers, lakes, mineral deposits, forests and fertile soil are the spontaneous gifts Nature offers to man, but that kind mother yields her blessings only at labour's call. The water of lakes and rivers must be conveyed to fields thirsting for moisture, the minerals must be extracted from the earth, trees in the forests must be felled and removed and the soil must be ploughed and cultivated. In his migrations man has tried to occupy the fairest parts of the earth, but has not always succeeded, and he has had to struggle with the obstacles placed in his path by Nature. Many economic stages had also to intervene before he rose to the present state of industrial organization. If we leave aside the wild tribes of Gonds, Bhills and the like that are still found in India, not far removed from the primitive condition in which man subsists by hunting and pasture, we find that the bulk of the population has, for centuries, been prosecuting agricultural and other industries with patience and perseverance.

Nature does not smile on all parts of the country alike. She frowns upon man in several places and there she has been coaxed into yielding her gifts. In many tracts of the country, the people have had to struggle very hard to eke out a living and with great difficulty the land has been made capable of supporting human life. The intensity of this struggle with nature has moulded the character of the people in different parts of the country in different ways. While, therefore, some have become most courageous, enterprising and tough, others have learnt to take life easily. On the whole, however, the value of labour in the production of the necessities of life has been universally appreciated and the old arts and industries of India testify to this fact. The Indian farmer and craftsman is well-known for his patience and skill, and though labour in this country has been confined to distinctive grooves, the essential conditions of productivity are indisputably present in it.

**35. The Labour Factor.**—The first requisite of production is land and the forces of nature. The second essential of wealth-creation is labour which is defined, as it is usually understood, as muscular energy directed by intelligence. In economics the word is applied to every effort made by men in contributing directly or indirectly to production and refers alike to the human energy spent by a common workman in the field or factory and to that of the Viceroy and the Commander-in-chief of India. Ordinarily, however, labour means the manual and intellectual energy brought to bear upon the work of production by all those who directly participate in wealth-creation. The value of land as a factor of production may be partly the result of the labour bestowed upon it; and implements and machinery required for wealth-production are also the product of human labour. Yet the natural powers of the earth and the atmosphere and the pre-existing wealth

which is used by the producer, are both essentials of production which can be distinguished with sufficient clearness, from labour.

To satisfy his wants man has always used his physical and intellectual energies and as in the case of land, so in that of labour, the quantity of wealth produced will be conditioned by the efficiency of the factor of production. If more utilities are created in the same amount of time or the same utility is produced in a less amount of time, that is a distinct gain to the individual and to the community. The efficiency of workers and their condition, therefore, play an important part in determining the national dividend and the welfare of society.

As the essence of wealth-creation lies in the surplus of pleasure over the pain of labour or sacrifice, the smaller the amount of the cost, the higher will be the gain. But smallness of the remuneration paid to labour does not often denote a large surplus because the contribution of that labour to production may not be sufficiently high. Low wages may some times prove more costly than high wages.

"In the Philippines the contractors find it in the end cheaper to hire the Chinamen in preference to the natives, although the former command large wages; in the southern cotton factories the white labourer is found more advantageous than the negro factory hand, who can be hired at a materially lower wage. Furthermore, in the same industry and with the same workman neither an increase of wages nor outfallment of labour time necessarily augments cost. Where a reduction of hours or an increase of wages succeeds in enhancing energy, care and sobriety, the output may be greater than before."<sup>\*</sup>

**36. Cheapness and Efficiency.**—Indian labour is said to be cheap but at the same time comparatively

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<sup>\*</sup> Seligman: Principles of Economics.

very inefficient. The cheapness is both the effect and the cause of India's poverty; and even if the Indian labourer is not getting his due share it cannot be sufficiently large so long as the total product is small. In point of efficiency, the Indian workman is compared with his western brother to his great disadvantage, and it is stated that an English labourer is six times as efficient as the Indian labourer. Apart from climatic and other factors which go to make labour inefficient, the Indian workman suffers from a lack of education and training. When these latter are available, the efficiency of Indian labour will not be lower than that of workers in other countries. Comparisons such as the one stated above, are sure to be unfair to the Indian labourer who is the victim of the conditions that surround him and is not inherently incapable.

Complaints are not unoften heard from employers about inefficiency of labour accompanied by a rise in wages. The causes of recent increased wages have, however, little to do with an improvement in the conditions of work on the field or in the factory. Given proper training, congenial surroundings and healthy conditions of work, the efficiency of Indian labour is bound to be high. We cannot do better than quote here the testimony of Sir Thomas Hollaud. Speaking at Madras recently he observed :—

“ One thing that I am quite satisfied with already is that in India we have means of obtaining all the expert labour that is necessary. Any one who has visited the Tata Iron and Steel Works will come away thoroughly convinced with the conclusion that with Indian labour you can tackle any industry for which the country is suitable. I have seen labourers at Sakchi who only a few years ago, were in the jungles of the Santals without any education. They are handling now red hot steel bars, turning out rails, wheels, angles of iron as efficiently as you can get it done by any English labourer. You cannot have a better test

of the quality of labour and you cannot be prepared for more satisfactory results. When your labour is organised and properly educated and properly fed there is not the slightest doubt that you will get results that will suit all raw materials available in the country. The whole question is largely of the methods we should adopt for getting information regarding our own materials and training people to suit the needs of industrial development."

The proverb that 'a bad workman quarrels with his tools', may be fitly applied to the employers in India who find labour scarce, dear and inefficient. They do not know how to procure and train labour and how to make it efficient.\*

**37. Different classes of labour.**—Before the advent of machinery and steam power in this country, Indian labour was known to be thoroughly skilled and efficient. The artistic work of India was famous throughout the world, and the efficiency of Indian weavers, metal workers and carvers, was undoubted. Though the fine products of Indian labour are being fast displaced by machine-made goods imported from abroad, we still get them in sufficient quantity and variety to testify to the high level of efficiency reached in India. It is a well-known fact that in the first quarter of the last century, the products of Indian looms competed successfully with the piece goods turned out in English factories till at last they were driven out of the field by the selfish and short-sighted policy of the East India Company.

Owing to the decadence of the old indigenous industries and the inability of the people to start new ones to

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\* "I am of opinion that unless the mentality of the workmen is improved by primary education so as to enable him to take an intelligent interest in his work there can be no marked improvement in skill, and, again unless he is well paid, comfortably housed and provided with innocent amusement and recreation, there will be no sufficient inducement for him to give steady attendance which is one of the requisites for maintaining the acquired skill at a high level." Speech of Mr. Saklatwala, Chairman, Bombay Millowners' Association, 1917.

take their place, agriculture has become the mainstay of the population and the bulk of our workers are connected with that industry.

"In England according to the returns for 1901, of every hundred actual workers, 58 are engaged in industrial pursuits, 14 in domestic service, 13 in trade and only 8 in agriculture; whereas in India 71 per cent. are engaged in pasture and agriculture and only 29 per cent. in all other occupations combined. The preparation and supply of material substances afford means of livelihood to 19 per cent. of population (actual workers) of whom 12 per cent. are employed in industries, 2 in transport and 5 in trade. The extraction of minerals supports only 2 persons per mille; the civil and military services support 14, the professions and liberal arts 15, and domestic service 18, persons per mille." †

The following tables will show in detail, how the population is distributed among the different occupations:—

Ocupations of the Indian people.

A	India ... ..	313,470,014
	Production of Raw Materials ...	227,030,092
I	Exploitation of the surface of the	
	earth ... ..	226,550,483
	Pasture and agriculture ... ..	224,895,900
	(a) Ordinary cultivation ... ..	216,767,137
	(b) Growing of special products and	
	market gardening ... ..	2,012,503
	(c) Forestry ... ..	672,093
	(d) Raising of farm stock... ..	5,176,104
	(e) Raising of small animals ...	48,063
	Fishing and hunting ... ..	1,854,583
II	Extraction of Minerals ... ..	529,609
	Mines ... ..	375,927

† Census Report, 1911.

## INDIAN ECONOMICS.

	Quarries of hard rocks	...	...	75,424
	Salt etc.	...	...	78,258
B	Preparation and supply of Material			
	Substances	...	...	58,191,121
III	Industry	...	...	35,323,041
	Textiles	...	...	8,306,501
	Hides, skins and hard materials			
	from the animal kingdom	...	...	698,741
	Wood	...	...	3,799,892
	Metals	...	...	1,861,456
	Ceramics	...	...	2,240,210
	Chemical products properly so called			
	and analogous	...	...	1,241,587
	Food industries	...	...	3,711,675
	Industries of dress and toilet	...	...	750,609
	Furniture industries	...	...	39,268
	Building industries	...	...	2,062,493
	Construction of means for transport	...	...	66,056
	Production and transmission of Physical forces (heat, light, electricity, motive power etc.)	...	...	14,384
	Industries of luxury and those pertaining to literature and to arts and sciences	...	...	2,141,665
	Industries concerned with refuse matter...	...	...	1,388,515
IV	Transport	...	...	5,028,900
	Transport by water	...	...	982,766
	Transport by road	...	...	2,781,938
	Transport by rail	...	...	1,062,493
	Post office, telegraph and telephone services	...	...	201,781
V	Trade	...	...	17,839,102
	Banks, establishments of credit, change and insurance	...	...	1,220,187
	Brokerage, commission and export...	...	...	240,856
	Trade in textiles	...	...	1,277,469
	Trade in skins, leather and furs	...	...	296,712
	Trade in wood	...	...	224,83

# DIFFERENT CLASSES OF LABOUR.

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Trade in metals	...	...	...	59,761
Trade in pottery	...	...	...	101,986
Trade in chemical products...	...	...	...	171,927
Hotels, cafes, restaurants etc.	...	...	...	719,052
Other trades in food-stuffs	...	...	...	9,478,868
Trade in clothing and toilet articles	...	...	...	306,701
Trade in furniture	...	...	...	173,413
Trade in building materials...	...	...	...	84,613
Trade in means of transport...	...	...	...	239,396
Trade in fuel	...	...	...	524,962
Trade in articles of luxury and those pertaining to letters and arts and the sciences	...	...	...	522,130
Trade in refuse matter	...	...	...	3,695
Trade of other sorts	...	...	...	2,192,534
C Public Administrations and Liberal Arts	...	...	...	10,912,123
VI Public force	...	...	...	2,398,586
Army	...	...	...	665,278
Navy	...	...	...	4,640
Police	...	...	...	1,728,668
VII Public Administration	...	...	...	2,648,005
VIII Professions and liberal arts...	...	...	...	5,325,357
Religion	...	...	...	2,769,489
Law	...	...	...	303,408
Medicine...	...	...	...	626,900
Instruction	...	...	...	674,393
Letters and arts and sciences	...	...	...	951,167
IX Persons living principally on their income	...	...	...	540,175
D Miscellaneous	...	...	...	17,286,679
X Domestic service	...	...	...	4,599,080
XI Insufficiently described occupations	...	...	...	9,236,210
XII Unproductive	...	...	...	3,451,381
Inmates of jails, asylums and hos- pitals...	...	...	...	132,600
Beggars, vagrants, and prostitutes...	...	...	...	3,311,771



## II

Occupation.	No. per 10,000 of total population.
Landlords and tenants ... ..	5,606
Agricultural labourers ... ..	1,316
General labourers ... ..	287
Stock-owners, milkmen and herdsmen ...	164
Cotton workers ... ..	207
Blacksmiths ... ..	44
Brass, copper and bell-metal workers ...	9
Carpenters and wood-cutters ... ..	99
Fishermen, boatmen and paliki bearers ...	133
Oil-pressers ... ..	37
Barbers ... ..	68
Washermen ... ..	68
Toddy drawers... ..	20
Grain huskers and parchers... ..	68
Leather workers ... ..	90
Basket makers, scavengers and drummers	107
Priests ... ..	64
Potters ... ..	63
Mendicants ... ..	128
Cartmen and pack animal drivers ... ..	47
Village quacks and midwives ... ..	6
Goldsmiths ... ..	57
Grocers and confectioners ... ..	119
Grain dealers and money-lenders ... ..	109
Village watchmen and other officials ...	64
Vegetable and fruit-sellers ... ..	51
Makers and sellers of bangles ... ..	18
Total ... ..	9,029

**33. Agricultural Labour.**—India is a country of villages. Only 9·5 per cent. of the population of India are found in towns (having not less than 5,000 inhabitants as a general rule) compared with 78·1 per cent. in England and Wales and 45·6 per cent in Germany. In such a preponderatingly agricultural country as India, out of

every 10,000 of the village population, a little more than a half are land-lords and tenants and about one-eighth are agricultural labourers, general labourers being about 3 per cent. of the whole. It has been calculated that 'on the average, in the whole of India, every hundred cultivators employ 25 labourers, but the number varies in the main provinces from 2 in Assam, 10 in the Punjab, 12 in Bengal, 16 in the United Provinces to 27 in Burma, 33 in Bihar and Orissa, 40 in Madras, 41 in Bombay, and 59 in the Central Provinces and Berar.'

As regards Indian agricultural labour, there is no question about its being most patient, assiduous and skilful. The agricultural labourer often owns a piece of land himself and works both on it and on the farm of a local land-owner. This land-lord-cum labourer does besides other kinds of work; plies his cart for hire and markets field produce. The women of the house also work in the fields and women labourers are employed for weeding, harvesting and so on. They make cow-dung cakes which are sold in the neighbouring town, and milk is also similarly taken for sale every day. Agricultural labour is thus not specialised as in western countries, and spinning and other simple trades are also carried on under the roof of the cottage.

The impression has long prevailed that the Indian cultivator is a very indifferent worker, dull-headed unenterprising and inefficient; but it seems to be derived from the fact of his being without capital, without good implements and manures and without those other characteristics which give a farmer the appearance of a progressive and efficient worker. Latterly, however, the Indian cultivator has come to be better appreciated\* and it is

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\* "It is assumed that the Indian cultivator knows nothing about his own business: that any thing that is good must come from the West. And so the kindly, but in many cases, misdirected efforts of early workers took the line of introducing into India crops or implements of Western origin, regardless

stated that in the art of agriculture he has little to learn, except the new methods which scientific progress has taught. In 1889 Dr. Voelcker, consulting Chemist to the Royal Agricultural Society of England, was deputed to make inquiries and suggest improvements in respect of Indian agriculture. And he wrote:—

“On one point there can be no question, viz, that the ideas generally entertained in England, and often given expression to even in India, that Indian agriculture is, as a whole, primitive and backward, and that little has been done to try and remedy it are altogether erroneous.....At his best the Indian Ryot or cultivator is quite as good as and in some respects the superior of the average British farmer, whilst at his worst, it can only be said that this state is brought about largely by an absence of facilities for improvement which is probably unequalled in any other country, and that the Ryot will struggle on patiently and uncomplainingly in the face of difficulties in a way that no one else would. Certain it is that I, at least, have never seen a more perfect picture of careful cultivation, combined with hard labour, perseverance and fertility of resource, than I have seen in many of the halting places in my tour.”

The position is pithily summed up in the following significant utterance of His Most Gracious Majesty the King-Emperor:—

“The cultivator has always been patient, laborious and skilful, though his methods have been based upon tradition. Latterly the resources of science

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altogether, in the case of crops, of the effect of climatic change or in the case of implements, of considerations of cost. This feeling died hard. It was long before the stage was passed of considering that the West must teach the East, that the East had nothing to teach the West. Real progress came only when it was realized that in India we have to deal with an agricultural practice which has been built up on the traditional custom of years and in which reside though unexpressed and unexplained deep scientific principles, the reasons for which can only gradually be elucidated.”—“Agriculture in India” by James Mackenna,

have been brought to bear upon agriculture and have been demonstrated in a very short time."

**39. Village Economy.**—The Indian village is generally self-contained\* unless where it has been brought into close contact with the outside world by the railway. The importation of machine-made goods and their diffusion throughout the country, have, however, disorganized the self-sufficing organization of villages. On a preceding page we have shown the traditional occupations of the inhabitants of villages and that represents the normal rural situation. But the village organization is fast undergoing a change. The traditional skill of several classes of artisans finds a steadily diminishing demand owing to the introduction into villages of manufactured articles, Indian or foreign. They are, therefore, thrown back upon the land which some of them own and thus press upon the soil except where new tastes and wants provide them employment in their old industry adjusted to changing circumstances.

The caste of each worker determines for him the occupation he will follow. Though some people will disdain to touch the plough, 'it may be noted that agriculture, including field labour is the occupation which has drawn away most of those who have deserted their traditional callings.' There are, again, various occupations, which are not specially earmarked such as service under Government, the learned professions &c., which persons of all castes seek to follow; and with the spread of education the competition for employment in these directions will become increasingly severe. The struggle for existence and spread of education are two great solvents; and they are loosening the rigidity of caste organization. Thus the higher classes among the Hindus, e. g. the Brahmins, are taking to trade, and such occupations as tailoring, carpentry, &c., are no longer barred to them. Owing to a lack

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\* Dr. H. H. Mann: "Land and Labour in a Deccan Village", Page 150.

of demand for their goods, the hereditary skill of several artisans has deteriorated and it is only to satisfy the simple 'wants' of village people or the artistic tastes of the wealthy few that rural and urban craftsmen ply their industries.

The farm worker goes daily to his field in the agricultural season and does some other job when land provides him no employment. The cow-herd and the shepherd tend their herds and flocks in the village commons and on adjacent hills. The weaver plies his handloom under trees in front of his hut and the potter turns his wheel in the open space before his hovel. The blacksmith works at his anvil and forge to make and repair the implements and tools of the village. The carpenter, the leather-worker and the shoemaker are likewise in request and supply the simple wants of the rural folk. Female workers are employed in the fields for weeding, picking and reaping. But ginning and spinning are no longer the regular domestic occupations of women as they were before the advent of machinery. Most of the craftsmen in the village are autonomous workers, but the other labour is hired, either by the day or by the year. In the old village organization, artisans and craftsmen were expected to supply their labour to farmers in return for remuneration given to them in kind according to a fixed schedule. This system prevails in villages even at the present day.\*

**40. Factory Labour.**—Even in Western countries where the factory regime is in full swing, we witness in industries what is called a 'regressive evolution,' and manual labour, assisted perhaps with improved tools, is often preferred to work done with the aid of machinery. In India, the machine is the exception and manual labour the rule, in spite of the fact that in large centres like Bombay, Calcutta, Cawnpur and Ahmedabad numerous

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\* See T. N. Aitre's "Gawa-gada" in Marathi.

factories have been started. The labour employed in factories is, of course, of a different character from that engaged in agriculture, the domestic industries and the handicrafts. Much of it is, indeed, highly skilled and its efficiency is considerable.

It is not easy to calculate the number of people employed in the two different types of industries. The latest census report, however, gives specially collected statistics of persons engaged in factories which employed twenty or more persons on the date of the census. There were, in the whole of India, 7,113 such factories employing 2.1 million persons, or 7 per mille of the population. Of these 21 lakhs workmen, 5,54,778 were returned as skilled and 14,80,815 as unskilled. There were 38 females per 100 males employed in the factories. The plantations alone were responsible for 7 lakhs of workers and more than 5½ lakhs were employed in textile industries, mines providing employment for about 2½ lakhs. Railway workshops, 118 in number, gave employment to 98,723 persons, and of these 65,460 were skilled workers. Of the 7,113 factories mentioned above, 4,529 use mechanical power, and are responsible for the employment of 18 lakhs of workmen out of a total of 21 lakhs. It may have been observed that the proportion of skilled to unskilled labour in factories is as 1 to 3.

What we have said above of agricultural labour applies, to a certain extent, to labour in factories also. Several of the mill-hands in Bombay, for example, have their bits of land, perhaps the common property of a joint family, and they return to their rural homes at the beginning of the rainy season. They lend a helping hand to the folk at home in agricultural operations and on the close of the season return to their urban occupations. These migrations disturb the work of the factory and the employer is annoyed by the absence of so many hands at regular intervals. The operatives are not inclined to settle per-

manently in or near the towns as their attachment to the native village is too strong for this and the conditions of urban life are not sufficiently attractive. Nor can they stick to their rural homes as they must go out to earn enough to supplement the scanty and precarious income yielded by the village land. This amphibious character of the Indian factory worker is an interesting feature of our industrial organization and possesses great economic significance.

**41. Traditional Training.**—In the case of the old industrial arts, as we have pointed out before, there is yet much surviving skill and efficiency, but these have little scope for expansion, and with a steady diminution in the demand for products of indigenous manufacture, they are slowly but surely disappearing. The need of new industries and of a modification of the forms of the old ones, is being keenly felt, and it has become necessary to adjust technical and industrial training to the changed circumstances. The traditional method of industrial training may thus be described :—

"The child learns his hereditary craft from his father or is apprenticed to a *mistri*, or master craftsman, who is often a relative of the pupil. There is no regular fee, and a small present is often paid to the owner or foreman of the shop, and in some trades a religious ceremony may take place at the time of apprenticeship. The child begins his work at a very early age; at first he is expected to undertake the menial duties of the shop and is put to cleaning the tools; later he begins to perform the simplest operations of the trade. There is little definite instruction, but the boy gradually acquires skill by handling the tools and watching the workmen at their task. As soon as he has made a little progress, the apprentice is granted a small wage which is gradually increased as he becomes more useful; and when his training is

finished, he either goes out into the world or secures a place on the permanent roll of his master's shop."\*

This system answered well in the past, but it no longer suits the changed and changing economic conditions in India. The workmen are not thereby enabled to keep abreast of the times, the quality of their work has deteriorated and the products of their industry are fast being supplanted by imported articles. Except in a few cases, they can neither adhere to the traditional system nor avail themselves of the advance the world is making in improved mechanical inventions. The bulk of Indian workmen are ignorant. They cannot understand the changes that are taking place all around them, and cannot be expected to adjust their activity and skill to the altered environment. They are also extremely poor and their lack of means is another serious obstacle in their way.

The handloom weaver is a typical example of this deplorable condition and it is a serious problem to rehabilitate him.

"The weavers are exceedingly poor and in the main rely upon middlemen for the small amount of capital actually employed in their trade—they are ignorant and narrow-minded and averse to enquiries regarding the detail of their trade. Each man works for himself and there is little or no co-operation among them. There is no chance that any weaver may arise with an intimate knowledge of the technique of the trade and with a mind sufficiently wide to grasp the general trend of the economic forces which are gradually driving his fellow castemen to misery and despair. The only hope lies in the conduct of experimental weaving by the State with the object of working out by degrees a better system of production."†

**42. Present Requirements.**—It is inevitable that in the steady process of economic evolution now going

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\* The Indian Year Book.

† Chatterton: "Agricultural and Industrial Problems in India."



on in this country, the hand workers should have to abandon their old callings and that improved and new industries should take their place. Their displacement naturally excites sympathy but they cannot be simply preserved as the relics of a bygone age in an economic museum. The young generation of the hand workers must be educated and trained in new methods and processes and must be taught to use improved tools and machinery. Only in this way can these classes of workers in India be enabled to keep abreast of the times and be efficient agents in the production of wealth. Even though they may cling to their particular callings allowed by caste prejudices, they may be given scope for improvement in those very callings and thus be enabled to stand outside competition. Or they may be trained to work in factories where their inherited aptitude may be suitably developed into up-to-date efficiency. Workmen of this type do find employment in mills and factories and are able to earn high wages. They also can steadily rise to higher positions and become foremen and even managers and employers. This will certainly mean the transformation of autonomous workers into wage-earners. But failing the rehabilitation of craftsmen in a comfortable position, that alternative is preferable to stagnation and starvation.

In textile mills, mines, factories and railway workshops, a training suited to the different trades, is essential to make efficient workers, and in India as in other countries, honest, active and intelligent men are promoted to responsible and remunerative places. But in this country, the higher and the intelligent classes usually take to the learned professions and the too literary character of our education has created a large amount of unemployment among them. A number of technical schools do exist and some of their products secure employment in the factories. An adjustment, however, between industries and technical institutes has not yet taken place, and

there are numerous young men who have received technical education but fail to secure suitable employment. While there is a popular demand for the establishment of technical institutes, large and small, in all parts of the country, there is a complaint on the other side that the supply of trained men is already larger, and any addition to it must increase the army of the unemployed.

What is urgently required is the reorganization and expansion of our whole educational system. The diffusion of primary education, the starting of technical and industrial schools and the provision of mechanical training for factory operatives must be undertaken on a liberal and comprehensive scale and nothing must be left to custom or to chance. The problem of national education has been or is being solved in Germany, Japan, England, Austria and America, but in India we have long drifted and even now when the lessons of the war in this connection are being taken to heart everywhere else, we are not moving sufficiently fast.† Each individual citizen must go through a suitable system of education, his faculties must be developed and the best that is in him must be drawn out to his own and the public advantage.‡

† See Viscount Haldane's paper on National Education in 'After-War Problems' and an account of the German system of education in Earl Dean Howard's 'Recent Industrial Progress of Germany.'

‡ To improve our methods of production, especially here in India, we need to recognise and put into operation—three great factors: (1) a reorganisation of our educational system making ample provision for a life of up-to-date industry and commerce; (2) a recognition of the importance and place of science in industry; (3) a larger measure of State initiative and control in all the needs and problems of national economics. At the bottom of it all, India's greatest problem of industrial organisation is the dire need of education and training of her millions for productive ends. Look at India's educational need (1916).

<i>India.</i>		<i>Japan.</i>	
Men Illiterate	Women Illiterate	Boys at School	Girls at School
90 per cent.	99 per cent.	99 per cent.	98 per cent.
Boys at School	Girls at School		
23 per cent.	5 per cent.		

What does this condition call for? The establishing as soon as possible of Mr. Gokhale's free and compulsory primary education scheme—Prof. A. J. Saunders in 'The Wealth of India.'

**43. Technically Trained Men.**—The view is held by many that,

"if it is admitted that in every other country technical education has followed the organization of industries, or grown up alongside with them, and may be said to be the necessary complement to industrial efficiency, it is obvious that in a country where few industries are established, the wholesale education of Indians could only result in an excess of young men trained up for posts which do not exist, and for whom no suitable occupation can be found."

Employers of trained labour likewise complain that the men produced by the technical institutes are not suited to the kind of work they are expected to do in factories. The men, it is said, want high salaries, even from the very start, and are averse to working with the hand. They are, therefore, condemned by the employers as useless people. For the higher kind of work they are not wanted and for the lower grades of labour for which there is a demand, they are not suited. This is the burden of the complaints which employers had to make to Lieut-Colonel Atkinson and Mr. Dawson who were deputed by Government to make an inquiry into the subject.

Opposed to this view is the other according to which employers of labour in India have a strong and by no means an unselfish prejudice against technically trained men and that they want to employ low-paid workers.

"Even in existing conditions the field for employment is large if the exclusiveness of some of the employers is overcome. The railways and navigation companies, for instance, provide an increasing number of berths to men trained in the technics. We have now about, 33,000 miles of railway in India and the mileage is expanding. This must have a large room for employment if only as foremen, drivers, fitters, guards, carriage builders and engine makers. There are very few Indians now employed. They have not

had their chance in this line. The navigation companies too do not now employ them except in the lowest rungs of the service. Ship-building is not undertaken in India and yet the time will come when an attempt will have to be made.....The growing mills, the business houses, the banks, the engineering firms and a host of other special institutions that could be named could employ for years to come almost all the material turned out by the technical institutions, either now existing or which may be started in the course of the next few years."<sup>\*</sup>

**44. Prospects.**—On railways, and in mills and factories, there is undoubtedly a growing demand for trained men and in several of them the relatives of the employers are trained. The inhabitants of certain provinces and the members of particular castes are declared to be peculiarly fit by nature for technical education. Members of the artisan classes are preferred by employers, one of whom stated that "the men required in the textile industry were men recruited from the lower classes and educated up to about the middle standard—men who were accustomed to hard work by tradition and had not been spoilt by too high education." Employers seem to be willing to take up apprentices if young men of the right type are willing to learn under the conditions offered, and suitable provision may also be made for technical education in special schools or institutions attached to factories.

The spread of elementary education is the first need of the country, and that system must be linked up which general technical and special industrial education. With intelligent and trained labour several of the existing industries may be improved and rendered profitable while the efficiency of new ones may be materially increased. The beneficent effect of elementary education upon the efficiency of labour has been

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<sup>\*</sup> Report on the Inquiry concerning the employment of technically trained Indians.

admitted on all hands.\* For the higher grades of workers a little more education and actual experience in factories, combined with technical training, is needed. And as to the work of supervisors, managers and organizers, technological institutes of a higher type like the Victoria Jubilee Technical Institute in Bombay and the one proposed to be started in the United Provinces, are obviously necessary. Men so trained must also get scope for the use of their education and ample opportunities for rising to higher positions in industries.

In agriculture too, special training will go a long way to improve the efficiency of the farmer, and provision is being made for this by the starting of vernacular agricultural schools for the sons of cultivators, notably in the Bombay Presidency. The common agriculturist does possess great skill, but his industry cannot be made more remunerative and productive unless he knows how to apply improved methods of farming.

"Skill, that is to say, practice and a certain amount of knowledge, is required by the man who drives a plough or a cart or who sows or reaps or irrigates or weeds; and this skill is acquired in a very high degree by the cultivator's children as they help their father and learn from him.\* But the art of agriculture has to move with the times, just as handicrafts must move: new crops have to be grown and old crops given up: new methods, new tools, and new implements are required in order to secure the greatest possible production from the land; and the cultivator cannot teach his sons about these things, which he does not know himself. And so arises the need for some kind of education which shall teach the cultivators' children the new knowledge they require without interfering with the training they receive from their fathers"†

**45. Shortage of Labour.**—We shall have more to say concerning the condition of labour, urban and rural,

\* See evidence recorded by the Indian Industries Commission on this point.

† An Introduction to Economics—W. H. Moreland.

in a later part of this book. Here we shall notice one or two points only with respect to the supply of Indian Labour. The general complaint about the shortage of labour on the part of employers, has been already noticed. Like the Black Death in England, the Plague has taken a heavy toll of the lives of the working population during the past twenty years. This epidemic, along with malaria and other diseases, has produced big breaches in the ranks of labourers. But the fact that workers are not readily available or available at the old rates of wages, ought not to be taken as an indication of any shortage of labour. And here we are confronted with the paradox that while thousands of coolies have emigrated to distant colonies as indentured or free labourers, employers of Indian mills and factories have been complaining of a shortage of labourers. But we know under what conditions the emigrants go thousands of miles beyond the seas, and, after all, their number is a drop in the ocean when it is compared with the total labour supply in India. In the first place, the rising prices of food grains and other necessities, must make labour dearer, and employers have no right to expect workmen to be satisfied with the old rates. Secondly, though it is not easy to induce the ignorant Indian labourer to move out of his village and seek employment at distant places, the prejudice against migration is seen to disappear. More than ten lakhs of Indian labourers are to be found working on the plantations of the various British Colonies and thousands migrate from one province of India to another.

Leaving aside the kind of migration which has no economic importance, we have to note that

“The large streams of migration from Behar and Orissa, the united Provinces, Rajputana and Madras are specially note-worthy. These provinces supply the requisite labour to the fertile plains of Bengal, and the still undeveloped Assam and Burma. Not only are the fields of Bengal capable of supporting a

larger population than is now to be found in them but the insanitary condition of the province aids further immigration by decimating or disabling the existing labourers. Of the 14,00,000 emigrants in Bengal, only a fifth are the natives of the contiguous province of Behar and Orissa or Assam, showing thereby how attractive its factories and lands have been to the residents of even the distant United Provinces and Rajputana."\*

**46. Potential Supply.**—Though the attractions of such industrial centres as Bombay, Ahmedabad and Calcutta, draw labourers from far and near, there is a very large potential supply to be found among the classes known as 'untouchables'. For centuries they have been relegated to a condition of serfdom, and on account of the religious and social prejudices against them—the result of historical causes—they could not be counted upon to man the labour force which is required to carry on new industries started all over the country. Standing on the lowest rung of the ladder of Hindu society, the untouchable classes have no religious scruples which hamper the migration of the higher castes to distant provinces and abroad. Large numbers of these, therefore, go as coolies to Ceylon, Burma and Federated Malay States. Among these classes, therefore, we have an unlimited potential source of labour power and as their number is estimated at no less than six crores, Indian industries need not suffer from a shortage of workmen. Caste prejudices against the employment of these people will die out and ought soon to die out, and economic forces will combine with humanitarian and patriotic considerations to prevent so much human power from going to waste.†

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\* M. S. Kamath : "The Census of India."

† The movement of political reform which has gathered great force since the outbreak of the war, has compelled public attention to the question of the uplift of the depressed classes. As their disabilities are steadily removed, they will make an increasing contribution to the labour power of the country. Their sense of self-respect has been roused and there is to-day an upheaval among the depressed classes all over the country.

The members of the depressed classes who are shunned by high class people, are found to become respectable domestic servants and operatives. Today, they are in an extremely wretched condition, their habits are filthy and their surroundings are forbidding. Several of them, however, have been the traditional servants of the village community and are characterised by honesty, sturdiness and physical endurance. Some of them have lands given to them in lieu of village service and are thus cultivators. Others earn a living by making ropes, baskets and so forth. Tanning and curing hides gives employment to some, while others work as scavengers. The work of uplifting them, which is being carried on by philanthropic people and social reformers, has an economic significance. Both justice and economic needs require that the depressed classes should be raised from the slough of degradation into which they have been allowed to fall. The old system of specialization under which the caste of a person determined his profession, is slowly giving way before the advent of the new regime, and the old barriers of caste and prejudice being removed, all people must get opportunities to better their social and economic position by doing work for which they are fitted.

**47. Criminal Tribes.**—Members of the depressed classes have all along been servants of the village community, performing the duties entrusted to them. Several of them have vatan lands given to them and they are paid by the community for the services they render. Some of these classes also earn their living by curing hides and making baskets and ropes and in other ways as we have pointed out above. Owing to the administrative and economic changes which are taking place in the village organization and public life, these classes are fast losing their traditional employment. If they are, therefore, given education, they can be made to take a share in the new industrial organization by working in mills,



factories, and workshops. Besides these depressed classes, again, there are the criminal tribes scattered all over India. They lead a vagrant life and are a menace to the peaceful population of our villages. The work of reclaiming these people has been recently undertaken by Government, and missionary effort is also in the field. These men can be weaned from their immoral and criminal habits and be made to live useful lives. They can be taught certain trades and thus may become useful members of society instead of parasites and habitual criminals.

Only one illustration of how the criminal tribes may be reclaimed and be trained to contribute to the production of wealth by taking up decent trades will here suffice. An interesting experiment to control and reform the criminal tribes of the Bijapur district has been recently made under the auspices of Government by Mr. O. H. B. Starte, I. C. S. With the co-operation of the officials and the gentry of the district, and particularly of certain employers of labour, he has been able to turn Chhapparbands, Haran-shikaris and Ghatichors into mill-hands, masons and agriculturists.

"In addition to the Chhapparbands many members of the criminal tribes of the Sholapur district were recently placed in the mills, so that at the present time there are about 776 members of the criminal tribes working in one or other of the Sholapur mills. In 1912 some Ghatichors were placed in the Southern Mahratta Spinning and Weaving Mill, Gadag. There are now 121 Ghatichors employed in the mill. Another settlement has been started at Gokak Falls, chiefly for the criminal tribes of Belgaum district. There are at present 386 Korohas, and Guserathi Bhats working in the mills. The fact that nearly all of the mills employing these criminal tribes are willing to accept more of the same class of labour, is a satisfactory testimony to the results of the attempt. In view of the difficulty in finding sufficient hands which

is experienced by most mills throughout India, the experiment would seem to be important as by it a new source for recruiting labour is opened out."\*

**48. Wastage of Labour Power.**—There is a large amount of labour power, actual and potential, which may be thus utilized to the immense advantage of the country. Some of the classes who at present contribute little to wealth-production, have been referred to above. There are several besides them who live on the profession of begging. With them it is a hereditary profession, and they think they can not do and ought not to do any thing else. Indians are an extremely charitable and hospitable people, and very often it is not a discriminating charity they practise. This piety is exploited by many a mendicant who does not regard begging dis-respectable. The mendicancy takes various forms, more or less associated with the religious ideas of the people. Most of the mendicants do not know the dignity of labour and pretend to feel offended if they are asked to earn their bread by the sweat of their brows.

The so-called Sadhus who go about from one shrine to another and live upon the industrious, are a great problem. The idle lives led by monks and priests, have provoked a reaction in the public mind in all countries, and the abuses of poor relief in England are well known. The drones who live on the piety and charity of villages and towns, will steadily find their position getting more intolerable in the struggle for existence which is becoming keener every-day, but to-day, they represent so much wastage of labour power. How to improve the Sadhus and make them useful members of society is a question which is being tackled by Hindn Sabhas and Conferences. It is a very large and difficult problem and must be faced by the community.

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\*O. H. B. Starna, I. O. S.: An Experiment in the Reformation of Criminal Tribes.

Caste restrictions which prevent persons from taking to a trade to which they are not born, also involve waste and loss of efficiency. Supply of labour does not readily respond to demand, and the productive power of the country suffers. Certain trades which, in other countries, are, indifferently pursued by all persons, are in India, confined to particular castes, and are looked upon as degrading by others. Mahomedans and other non-Hindus are not hampered by such restrictions, and they are seen easily adapting themselves to the situation. But as we have observed before, caste distinctions are gradually becoming less rigid in the economic sphere, though socially they are still very effective.

**49. Summary.**—The scarcity of labour which employers complain of, is only apparent, and the potential supply is almost unlimited. The growing use of labour-saving machinery will, by itself, give considerable relief. If employers provide healthy, congenial and attractive conditions of work, they will get all the labour they require. Population, it seems, is pressing on the soil and though the ordinary man is wedded to his village and to his piece of land, he may be induced to migrate to a distant centre of industry. There are numerous instances of migrations from one district to another and from the country side to towns.

It is indeed a serious matter to consider whether the creation of a proletariat is desirable. But in the face of the present situation, the development seems to be inevitable. The weaver working at his loom, the potter manipulating clay on his wheel, the oil-maker, busied with his primitive press, will be ousted from their traditional trades and will join the ranks of factory hands. Some of the indigenous industries may be saved and be continued in an improved condition, and the use of power and efficient tools, will help workers to maintain their autonomous condition.

In every trade, however, education and training are badly required. Workers in the old indigenous industries were and are highly efficient. But the changing tastes and wants of the people are creating a demand for commodities they cannot produce. An adjustment must, therefore, take place between the two. Elementary education must become universal and must be linked up to technical and industrial education. The value of this education is appreciated by employers as it results in increased efficiency but little provision has yet been made in that behalf. A scheme of general education, which will develop in children the power of observation and assimilation, to be followed by specialised education and actual training in a factory, will have to be devised for the sons of artisans and must be adapted to the needs of agriculture.

Unskilled labour is much in demand at present and commands high wages on railways, docks, canals and elsewhere. There is an equally large demand for skilled labour, and the trained workman has opportunities to rise to higher grades. The requirements of mills and factories will provide a larger scope for men who have received higher technical and scientific education. There is an overcrowding of the professions, and educated young men must be drawn to the fields of industry and commerce. Some of them have received training in foreign countries, and they must occupy the higher posts in the factories. The prejudice which exists against them, perhaps justified in a few cases, will disappear and technically trained men must occupy their proper places in industries. Indian employers are expected to give qualified young men opportunities to earn their salaries by the greater efficiency which they will bring about. And the latter will justify their employment in posts for which imported and highly paid labour is engaged. The young men too must not hesitate to take their coats off and be ready to work their

way up and must falsify the complaint of the employers that technically trained Indians have usually a bone developed in their backs which does not allow them to bend for actual hard work. Educated young men are seen to-day drifting and being ship-wrecked on unremunerative and unsuitable careers. A growing number among them ought to prepare for and be absorbed by industrial and commercial careers. They will thereby help to create more wealth in the country and to earn a decent share of it for themselves.

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## Chapter V.

### THE PART OF CAPITAL.

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**50. What is Capital ?**—Besides the intellectual and manual labour of man and the forces of nature, there is a third factor which is essential to the production of wealth, and, that is capital. Man working with his hands on material provided by nature, may produce commodities, but even the most primitive forms of production presuppose the use of instruments, weapons, and tools. Though capital-itself is produced by human labour, it is a distinct factor of production and occupies a very important place in modern organization of industry. Mere labour and powers of nature are not enough; there must be some pre-existing wealth available to enable the worker to maintain himself while new forms of wealth are being produced, and to assist in the processes of production.

The creation of wealth is the creation of utilities, and it involves activity intended to secure a surplus by augmenting utilities and diminishing costs. The cultivator, the weaver, the potter, the blacksmith, the carpenter,

the shoemaker, have all of them to use capital without which their trade would be impossible, and the higher the organization of industry, the larger is the quantity of capital required.

"The productivity of capital consists in the aid which it renders in securing the same results with less effort. It is an adjunct to human labour and to that extent lessens labour by interposing something between labour and its result."\*

The handlooms of the weaver, the wheel of the potter and the plough of the cultivator, constitute their capital, besides the raw-material which they use in their respective industries.

Capital, we are told, is the result of saving. The farmer sets aside a part of the grain he produces, for seeds, for buying manure and for paying wages to labourers, and these constitute his capital. If he is poor or extravagant, he may have to borrow these from the village money-lender and have to repay the amount and, in addition, pay interest upon it. But the grain which the money-lender has lent for sowing or for maintaining the cultivator while at work in his field, has been saved by the former out of his earnings. He might have consumed every thing that he earned and would thus have laid by nothing. In that case the money-lender would have had no capital to lend.

The weaver has a handloom in his house. But the yarn he requires is supplied to him by the money-lender, and for his daily food also he depends upon loans. Thus he carries on his trade on borrowed capital. But it is possible for a weaver or a blacksmith to produce more than he consumes himself and spends upon the purchase of raw-material and tools, and this surplus may be utilised in buying better tools and raw materials. This employ-

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\* Seligman.

ment of capital increases efficiency and leaves a larger margin of profit to the craftsman. The supply of a sufficient quantity of capital is, therefore, a necessary condition of the productivity of industry. And the economic condition of a community is satisfactory or otherwise according as the supply of capital is abundant or scanty and cheap or dear.

**51. The Rayat's Means.**—A big landlord or farmer in India has considerable capital which consists of farm-houses and wells, ploughs and cattle and of seed and manure. He can use his capital in getting as large a produce as possible out of the soil by procuring a steady and sufficient supply of water, by improving the land and by constructing embankments to retain moisture and silt. But the capital which is available to the ordinary cultivator is scanty and of the simplest kind. He has a plough and other rude implements, a pair of bullocks and a cart which he may, in the off season, ply for hire. The common cultivator, far from being a man of means, is indebted to the village sowkar and the indebtedness of the Indian rayat has become proverbial, and in certain parts of the country, almost notorious. He has to borrow at exorbitant rates of interest and is crushed under the weight of his debt. His land and property are generally mortgaged and often pass into the hands of the sowkar.

The question of the indebtedness of the rayat has engaged the attention of Government for the past sixty years, and measures have been taken from time to time to supply the rayat with the capital he wants for land improvements, till the co-operative credit movement has at last been regarded as peculiarly efficacious in this connection.\* The Deccan Riots Commission observed with reference to the indebtedness of the landholding classes as follows:—

"The estate of an ordinary kunbi rayat, exclusive of his land and its product, has been estimated by

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\* This subject will be treated at greater length in a later Chapter.



competent authority to be of little more than Rs. 200 in selling value; it will be somewhat as follows:—

	Ra.
Live stock ... ..	125
Implements and utensile ... ..	20
House ... ..	50
Miscellaneous ... ..	33

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Total ... \$15

We are not here concerned with the causes of the ryat's indebtedness. The fact of it is patent, and it is bound to affect prejudicially the productivity of his labour. The indebtedness is often a legacy left by the forefathers of the cultivator and he is heavily handicapped. There is practically little surplus left after the expenses of the maintenance of his family are deducted from the gross produce, and it is with the greatest difficulty that he can meet the Government assessment.

"It has been estimated that the yearly cost of food necessaries to each member of a kunbi's family is about Rs 25. Admitting that the food consumed by his family does not cost the ryot the market value, it is nevertheless plain from the figures of estimated yield of land, that in a year of average rainfall his receipts from six acres—two of each kind of soil—will leave a very narrow margin for Government assessment and expenses, amongst which the interest on the sowkar's loans in hard years must count as a current and unavoidable charge."\*

The Famine Commission of 1880 found from evidence collected from all parts of India that about one-third of the land-owning class were deeply and inextricably in debt, though not beyond the power of recovering themselves. An analysis of the embarrassment of twelve villages revealed to the Deccan Riots Commission the fact

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\* Report of the Deccan Ryot Commission, 1875.

that about one-third of the occupants of Government land were embarrassed with debt, that their debt averaged about eighteen times their assessments and that nearly two-thirds of the debt was secured by mortgage of land.\*

**52. Agricultural Capital.**—Capital is thus the most urgent need of the cultivators who form the bulk of the population and whose industry is the premier industry of the country. The agriculturist is certainly able to secure loans from the village money lender, but at exorbitant rates of interest; and therefore the capital thus borrowed cannot prove very productive. What is true of the common cultivator is likewise true of the artisan class generally. Money lenders are shrewd business men, and they secure themselves against the risk of the loss of their money by exacting high rates of interest, by a mortgage of property, by the imposition of high prices and in other ways. Speaking of the conditions in a typical dry Deccan village Dr. Mann. observes :—

"Very little advance in implements and methods seems to have been made though some new crops have been introduced in recent years. As to the implements of cultivation, a complete set such as is used by the people would cost about Rs. 40 and they are all made locally from beginning to end. The wood is grown in the village, the carpenter is a servant of the village, and except for the very small quantity of iron required for the tip of the plough share and the blade of various other cutting implements, the village would be quite independent. All repairs to these implements, are paid for in *baluta*, or a fixed charge on each crop produced,—but the carpenters are paid in cash for new implements made. The use of the modern iron plough is only just beginning, and the hire of these from Poona shows signs of being taken up."

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\* Very interesting results in this connection have been arrived at by Dr. H. H. Mann in the inquiry he has made into the economics of a Deccan village. See his 'Life and Labour in a Deccan Village.'

Agricultural capital takes the form of water supply, seed, manures and implements. As to the first of these, rainfall is precarious and insufficient over large tracts of the country, and the agricultural industry is often at the mercy of nature. Lands irrigated by canals and wells are in a fortunate position, and in them the condition of agriculture is comparatively satisfactory. Of about 225 million acres of cropped area in British India, not more than 47 million acres are irrigated.\*

"The total area irrigated in 1913-14 was 49,836,000 acres, as against 45,539,000 in the preceding year. Of this 18,271,000 acres was irrigated from Government canals, 2,175,000 acres from private canals, 6,384,000 from tanks, 13,867,000 from wells, and 6,219,000 acres from other sources of irrigation. In India irrigation on an extensive scale is ordinarily resorted to in tracts where the rainfall is most precarious. In Lower Burma, Assam, Eastern Bengal and on the Malabar Coast (including the Konkan) where the rainfall is ordinarily heavy, the crops hardly need the help of irrigation unless there is unusual scarcity of rain. Of the total area irrigated in 1913-14, 24 per cent. was in the Punjab, 21 per cent. in the Madras Presidency, 25 per cent. in the United Provinces, 9 per cent. in Behar and Orissa, 7 per cent. in Sind and the remaining 14 per cent. in the other Provinces."† The following figures will be found interesting in this connection †:—

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\* The area under crop in India irrigated by Government works is 25 million acres and this is in addition to the area irrigated by private irrigation works chiefly tanks and wells, which is also roughly estimated at 25 million acres. So the total irrigated area is brought up to 50 million acres or 26.6 per cent. of the net cropped area. The proportions vary in different provinces. In the Punjab 42 per cent. of the net cropped area is irrigated by Government works, in Madras 18.6, in the N.W.F. Province 13.4 and in Bihar and Orissa 10.6. The total capital outlay on irrigation works in India is Rs. 69 crores which produced last year revenue of Rs. 636 lakhs or 7.25 per cent. The value of crops raised through the assistance of these works is estimated at 88 crores.

† Agricultural Statistics of India, 1913-14.

Proportion of Irrigated  
to Total Cropped Area.

Sind ... ..	80	per cent.
Punjab ... ..	47	" "
North-West Frontier Province ...	37	" "
United Provinces ... ..	35	" "
Ajmer-Mewara ... ..	29	" "
Madras ... ..	29	" "
Bihar and Orissa ... ..	16	" "
Bengal ... ..	9	" "
Burma ... ..	8	" "
Assam ... ..	6	" "
Bombay ... ..	4	" "
Central Provinces and Berar ...	4	" "
Coorg ... ..	3	" "
Manipur ... ..	3	" "

The draught cattle possessed by the farmer form an important part of his capital. The number and quality of live stock determine the condition of the agricultural industry in all countries and especially in India where improved machinery is yet hardly used. Scarcity and famine have made a havock in the number of agricultural cattle and the social effects of this diminution are serious. Stock raising is practised here and there, but it can be done and must be encouraged by big landlords. The following are statistics in connection with live stock in British India.

#### Census of Livestock in British India.

The number of cattle in British India (excluding Native States) is approximately 148,900,000. Of this, bulls and bullocks account for 48,000,000; cows for 37,800,000; buffaloes for 19,200,000; and young stock for 42,900,000. The provinces which possess the largest number of cattle are:—

The United Provinces	31,700,000	(21 p. c. of total).
Bengal ...	25,300,000	(17 " )
Madras ...	21,800,000	(15 " )
Bihar and Orissa ...	20,100,000	(13 " )

The number of sheep is given at 23,000,000, of which Madras possesses 10,800,000 and the Punjab 4,700,000. The number of goats is 33,600,000; horses and ponies 1,700,000; mules and donkeys 1,600,000. The statistics relating to sheep, goats, horses and ponies, and mules and donkeys, exclude Bengal. A general census for British Provinces and certain Native States will be taken during the year 1919-20.

**53. Improved Implements.**—Well-irrigation means a considerable outlay of capital to which only a few cultivators are equal; and unless there is an assured supply of water, rich manures cannot be employed. The question of inducing the Indian agriculturist to make use of improved implements and machinery is surrounded with difficulty. The iron plough is coming more largely into use, but the same remark cannot be made about agricultural machinery in general.

"Much success has, undoubtedly, been obtained in the introduction of grain winnowers, cane-crushing machinery &c. But in recommending the introduction of reaping machines or heavy English ploughs caution is necessary. Reaping machines may be useful on large estates where labour is scarce, but the whole rural economy of a tract where population is dense, may be upset by their use. A large amount of cheap labour which ordinarily does the reaping is thrown out of employment: the gleaners lose their recognized perquisites. In the case of heavy ploughs, the advisability of deep ploughing has first to be proved. In both cases the capacity of the available cattle and the difficulty of replacing broken spare parts and of carrying out repairs are serious obstacles to the introduction of foreign machinery. As in the case of plants, the improvement of the local material which the cultivator can himself make and repair and which his cattle can draw, seems the more hopeful line of improvement."

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\* "Agriculture in India" by Mr. James Mackenzie.

It is well-known that agriculture does not provide much scope for the use of machinery. Yet machinery, is coming into larger use on the bigger farms and in industries connected with agriculture. Ginning and pressing cotton, the crushing of sugarcane, pressing of oil from seeds, manipulating operations in connection with ground nuts, as well as the lifting of water from wells and rivers—these call for the use of machinery and motive power. This development has given rise to a new industry and iron water lifts and crushers are being turned out in small factories in various parts of the country. The increasing demand for cotton, sugar, oil seeds and the high prices which these command in external markets, have encouraged the use of machinery in the industries connected with these raw materials. The following account of tendencies in Madras will prove interesting :—

“ During the past ten years the industrial tendencies in the Madras Presidency have mainly exhibited themselves in the supersession of hand labour by machinery driven by power derived from steam or internal combustion engines. The main factor has been the development of the use of the internal combustion engine, which enables small quantities of power to be generated both cheaply, and by methods which require no great amount of technical skill to supervise. In the deltaic districts, of Godavari, Kistna and the Cauvery, which are almost wholly given up to the cultivation of paddy, the primitive methods of husking by hand have to a large extent been superseded by modern machinery. As the result of measures deliberately taken by Government, there has been a similar application of motive power on a small scale to the raising of water for irrigation; and finally as the result, partly of direct Government assistance, and partly of progressive private effort, a number of what may be termed rural factories have come into existence, which use machine processes usually on the smallest scale that it is practicable to employ them.

Such factories employ machinery for ginning cotton, crushing sugar-cane, extracting palmyra fibre, pressing oil seeds, and cutting timber. In the towns power is being similarly employed in an even more varied manner."\*

In towns and cities, mechanical power is being employed for pressing oil, making flour and for similar other purposes. Flour mills are becoming very popular with the mass of people in towns, and gins have almost entirely superseded the domestic industry in which women were engaged. How the small industries may be improved if capital is made available to the artisans on easy terms is demonstrated by the way in which the sewing machine has come into extensive use in the tailoring trade during the last generation.

**54. Indigenous Capital**—It is impossible to form a correct estimate of the amount of the capital employed in the different industries in India and to say what increase there has been in its quantity within recent years. There is no doubt about the fact that more capital is being invested in new industries which are rising on all sides, and the people are coming more and more to appreciate the advantage of lending their savings to industrial and commercial concerns. The very failure of numerous banking, manufacturing and commercial concerns during the past few years, is eloquent enough in this respect as it shows the weakness and strength of modern Indian industrialism.

If the small improvements which are being effected here and there are omitted, we may say that there is no appreciable increase in the amount of capital invested by the people in the agricultural industry and in the small handicrafts. It is only in the manufacturing industries that a remarkable development has taken place in this respect. Excepting the cotton industry of Bombay, however, and other industries of extremely moderate

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\* Census Report, 1911: page 427.

dimensions elsewhere, they owe their rise and prosperity mainly to European initiative and capital.

Almost the whole capital of the cotton mills, amounting to no less than twenty five crores of rupees, has been raised in India. The tea plantations which have a little larger amount of capital invested in them, are most of them joint stock concerns registered in the United Kingdom. The jute industry with a capital of more than twelve crores, is also financed by European capital. Industries connected with wool, silk sugar, paper, tiles &c. have also absorbed considerable capital, some of which is Indian and there is much scope for expansion in this field. The value of mineral production in India is steadily increasing, and the bulk of the capital invested in the coal and gold mines has been imported. The fact is that the large quantities of capital which are required for manufacturing and mining industries are not available in India, and they are not forthcoming because the enterprise, the expert knowledge and the organizing capacity as well as the facilities which are necessary for the establishment of such concerns, are practically absent in India.

A remarkable exception has been recently provided by the Tata Iron and Steel Company which was floated in 1907, with exclusively Indian capital of more than two crores of rupees. This undertaking is being further expanded and there will be no difficulty in getting the necessary capital. The fact is that there is considerable latent capital in the country which may enable enterprising people to start new industries provided they can inspire confidence. The history of manufacturing, commercial and banking concerns which have been floated in recent years, proves that the sources of Indian capital have not been properly tapped and that they are calculated to yield a rich harvest. Sound concerns under the management of experienced and well-known industrialists,



rarely fail to attract the requisite capital, most of which, however, comes from the commercial and the professional classes.

**55. The Hoarding Habit.**—Much has been made of the hoarded wealth of India, and exaggerated views are held about its size. It has been estimated at anything between 500 and 800 crores of rupees. By hoarding is, of course, meant the habit of allowing wealth to lie idle and of making an unremunerative use of what might have been employed in the further production of wealth. Some wealth of this description in India may certainly be converted into capital, and the spread of education, the growth of the saving habit and the provision of banking facilities may be calculated to bring about this change. On the whole, the people of this country are thrifty, and certain classes habitually practise thrift and do lending business.

Even taking the highest estimate of the so-called hoarded wealth of India, we find that its amount does not exceed Rs. 25 per head of the population, that is, about one year's average per capita income.\* A large part of the total obviously consists of the jewellery of the princes and landlords, and the share for which the bulk of the population is responsible, must be extremely small. Apart from the fact that every pie of the hoarded wealth is urgently required for use as capital in the country, the total amount is as nothing compared with the hoards of other countries. Fondness for pomp and show is inherent in human nature, and Indians are not different in this respect from other people.

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\*In an article contributed to the *Indieman*, Mr. A. C. Chatterjee shows that the 'countless hoards' of India are a myth and says that 'according to careful estimates made by competent observers, such savings do not exceed ten rupees on the average of the whole population. He is inclined to think that 'five rupees per head is perhaps a more correct figure and this would amount in the aggregate to a hundred million sterling in the whole of India.'

The habit of hoarding is fostered by insecurity and the absence of a strong government and by a love of ostentation and display. The hoard of an average family in India consists of the trinkets on the persons of women and children and rarely of men. Education will cure the Indian population of this love of ornaments but even in progressive countries fashion dictates the locking up of a large amount of wealth in jewellery. In India jewellery has been the average person's bank which yields no interest and does not always ensure security. But it is the easiest and the most convenient method of saving and keeping wealth, in the absence of a knowledge of the advantages of banking. The trinkets are given as a pledge to the money-lender and on their security loans are raised.

Even people of the middle class have often to resort to this method of raising capital. As soon as the purpose for which the jewellery was pawned is fulfilled, the profits are once more converted into ornaments. With the establishment of peace and orderly Government under British rule, has come security of life and property, and ornaments need no longer be the deposit bank of any class of people. But it is ignorance and a lack of banking facilities that still stand in the way. Our princes, chiefs, noblemen, zamindars and other wealthy people have not yet become familiar with modern methods of commerce, industry and banking. They are slowly coming to understand the benefit that may be derived from the investment of their surplus income in industrial enterprises and that is a very hopeful sign.

**56. Conditions of Saving.**—There are other conditions besides security of property which make accumulation of capital possible. The income of individuals and communities must be sufficient to enable them to lay by wealth for future use. Foresight and thrift are also equally necessary. There are people who

take no thought of the morrow and do not realise the importance of providing against a rainy day. The ambition to live a life of independence and ease and to make provision for the proper bringing up of children, is likewise an important factor. In backward communities and classes these motives are absent or feeble. Instances are not wanting in India of persons who will stint themselves to provide for the education of their children or to leave to them a decent source of income. The indebtedness of the common rayat shows that this motive is not strong in him, but it is more the result of his poverty than of extravagance.

Under the modern industrial organization, wealth is coming to be concentrated in a few hands, and the margin for saving is so large in their case that they do not know what to do with the surplus. Profits of commerce and industry which have been very high owing to war in large cities like Calcutta and Bombay, return in part for investment as capital. There is no true abstinence in their case because there is no sacrifice involved. People will not also save unless they have the means of securely depositing their savings or can use them remuneratively. There must, therefore, be sufficient scope for investment as well as satisfactory provision for the safe keeping of the savings, large and small. These opportunities are now opening out before all classes in India, and co-operative societies, joint stock companies and commercial undertakings which are rising up in all directions, are an unmistakable proof of this development.

That the motive to save has not been very strong in India and that the tendency to spend on ceremonies and festivals is marked among the people, may be readily admitted. But we must point out that the views usually held in this connection are exaggerated. Prof. Marshall thus says :—

“They make intermittent provision for the near future, but scarcely any permanent provision for the

distant future ; the great engineering works by which their productive resources have been so much increased, have been made chiefly with the capital of the much less self-denying race of Englishmen."\*

Prof. Marshall does not know that roads, wells, tanks, canals, waterways and other works were constructed with the savings of the Indian people long before British capital could come to this country, and these old works are a monument to the patience, foresight and self-denial of the misunderstood Indian races.† And it may be asked, when did the race of Englishmen begin to accumulate capital in large quantities and to lend it to other nations ? It is so unscientific and grossly unfair to judge a poor and backward people by the standard of a wealthy and advanced nation and to apply the same test to peoples differently situated, politically and economically.

**57. Capital as a Power.**—The conflict between capital and labour, which has become extremely keen in western countries and the socialistic movement which has spread widely in the world, show what a great power capital has become in modern times. Capital is only one of the factors of wealth production, but it so dominates the economic organization of the present day that the modern industrial *regime* has been characterized as capitalistic. Though the theories of socialists like Karl Marx, according to which labour is the sole cause of value and is therefore entitled to the whole reward of production, are exaggerations, they only indicate how strong is the feeling of resentment that has been aroused in the minds of workers against the wealth and power of those who command capital and, therefore, labour. It is the concentration of capital in a few hands and the wage system under which the workers feel that they are robbed of their due reward by the employer, that have led to the

\* *Economics of Industry*, page 131.

† See above page, 28.

revolt of labour, and it is to fight organization of capital that workmen's associations have been formed.

In India industrial organisation is yet mostly of the simple kind. The Jamindar or the big landlord is a capitalist and wields enormous power. The money lender is also a capitalist whose capital is, however, lucrative capital. He is very often looked upon as a great tyrant because he exacts enormously high rates of interest for the capital he lends. The borrower seeks a loan for purchasing necessities of life or the raw materials and implements of his industry and by mortgaging his land and pledging his trinkets often becomes the slave of the money-lender. As he can command labour, the capitalist, whether urban or rural, must wield considerable power, and workmen, ignorant and unorganized, are at his mercy. Like the Jewish usurers of Europe, the Indian money-lenders have acquired a bad name, but it will be unjust to tar the whole class with the same brush. If some money-lenders are extortionate and harsh, others are kind and considerate. And the village money-lender is the friend of the rayat and the craftsman. The Famine Commission of 1880 observed:—

"However just may be the terms of abhorrence applied to the "Marwari" or foreign usurer, it must be remembered that he is the product of a diseased condition of the community. The like condemnation must not be extended to the village banker of the better class, with whose useful services the rural communities of India have at no time been able to dispense." †

The relations of capitalist and workmen are mostly regulated by custom, and it is only latterly that labourers have become conscious of their rights. They are slowly becoming independent as varied avenues of work are

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\* Report of Famine Commission, 1880.

being opened to them. The development, is therefore, from status to contract, and is the result of changing economic conditions.

**58. Foreign and Indigenous Capital.**—We have already pointed out that most of the large industries in India, particularly the manufacturing, mining and planting industries, are financed by foreign capital. For the construction of such public works as railways and canals, the State has adopted the policy of attracting British capital. The country has surely benefited by this policy in as much as those productive works could not have been otherwise carried out. London is the largest source of capital for British colonies and foreign countries and England had on an average, before the war, about Rs. 300 crores to lend every year.

Capital has become cosmopolitan and also cheap in western countries. The railways in the colonies and countries like China and Turkey have been constructed with the help of English and French capital. Dissatisfaction is often expressed in England that so much capital goes out of the country every year to fertilise foreign countries and that indigenous industries have to starve. It is obvious that for several years after the close of the War, capital will be scarce and dear and India will be thrown upon her own resources. In one way this will not be an undesirable effect as saving will thereby be stimulated and larger amounts of indigenous capital will be available for our trade and industries.

The benefits which the importation of foreign capital has conferred upon the Indian people, is duly recognized, and any opposition to the employment of foreign capital as such will be unreasonable. Capital, like labour, must be paid its price, and if a country does not possess capital of its own, it must import it. The objection, however, is

raised, as has been well said, not against foreign capital but against the foreign capitalist.\*

"The great mistake to be guarded against is that, because certain capital used in India is foreign, it must, therefore, do harm to the country. It has, of course, to be considered that we ought not to pay too high a price for it."†

Mr. Dutt characterises the employment by the State of foreign capital for its railways as an instance of 'the right use of foreign capital,' and equally right will be its use if only interest had to be paid on it and it were employed by Indians who would derive all the profit out of its employment. He therefore goes on to observe:—

"But when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and jute industries, the carrying trade by sea and the financing of our vast foreign trade by foreign banks, we come upon another and a less favorable aspect of the question of the investment of foreign capital. It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports after omitting Government transactions."

Mr. Dutt quotes Mr. (now Sir Thomas) Holland in support of this view. Speaking of our successful exploitation of the petroleum fields of Burma the latter observed

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\* Besides the disadvantage of the employment of foreign capital, that its profits go out of the country, there is another, viz. that foreign capitalists show a strong tendency to oppose measures of political and other reforms which, in their opinion, are calculated to threaten the security of their investments but which, in reality, are necessary for the economic development of the country. The cry of 'capital in danger' is as frequently heard as the cry 'religion in danger' when questions of reform are mooted.

† R. C. Dutt: Calcutta Industrial Conference, 1906.

in a paper read before the Industrial Conference in 1905:—

"The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry as in so many other enterprises of the kind, India will continue to pay such an unnecessary and undesirable tax as long as those in the country who possess money will not risk their reserve fund in industrial purposes."

**59. Capital and Banks.**—The subject of banking and credit will be separately dealt with in a subsequent Chapter. We have to refer here to the facilities that at present exist and that must be provided in order to make industries more productive and to assist the starting of new industries. During recent years, banking has made considerable progress in India in spite of the failure of several indigenous banks in 1913. The big concerns of the western type viz. the Presidency Banks, Exchange Banks and Indian Joint Stock Banks are almost exclusively concerned with the financing of trade. All of them receive deposits, make loans and deal in bills of exchange, the second class of banks buying and selling foreign exchange, besides. The total deposits of the three Presidency Banks were nearly Rs. 50 crores in 1916, and the corresponding figure for the Exchange Banks was 38 crores. The deposits of principal joint stock banks amounted, in 1916, to about 25 crores.

There are, besides, Indian shroffs and bankers who likewise finance internal trade. The savings of the people are, however, deposited with the above named banks and with Postal Savings Banks, the deposits in the latter amounting, in 1916-17, to Rs. 16½ crores. Co-operative credit banks come last with only Rs. 7½ crores as deposits. The banking habit is certainly growing upon the people, and the war loans and cash certificates have



provided a very useful practical lesson of the advantages of putting even small savings in a bank. More banks are, however, needed and they must be scattered all over the country, collecting small amounts and lending them for productive purposes.

The banks do not reach the small cultivator, craftsman and trader and if co-operative banks are excepted, it may be stated, that the rural and urban sowkars are the source from which loans are obtained. These money lenders charge exorbitant rates of interest, anything between 10 and 100 per cent. and it is not a wonder if the debtors are ruined instead of benefiting by the loans of capital. The Tata Industrial Bank is a step in the right direction and will supply capital to new industries. Many such banks are required, independent or state-aided, for the financing of industrial ventures.

As we have observed above, the greatest need of the hour in India is that of banking facilities in all parts of the country and of industrial as well as financial capital which will be easily available even to classes of small producers. The assistance rendered by the Presidency Banks is absolutely inadequate, and more banks must be started and scattered all over the country. These may not, however, be able to give credit for long periods as is required for industries, and special industrial banks will have to be established with State assistance. There is so much State money lying in the Reserves of the Government, and it may be made available for the encouragement of indigenous industries. Crores of rupees belonging to the Paper Currency and the Gold Standard Reserves are lent in England; they may be kept in India and placed at the disposal of enterprising men in this country, of course, with the necessary safeguards. How this supremely important object should be attained, whether by the institution of a State Bank or otherwise, is a subject worthy of the closest attention. There can be no doubt

about the fact that the existing financial machinery under which village and town sowkars and shroffs, joint stock banks, Presidency Banks and Exchange Banks, together with the co-operative credit societies and the Government, which gives loans to agriculturists for improvements, supply capital to Indian trade and industry, is unequal to the requirements of the economic progress of the country.

Take for instance the agricultural loans and advances given by Government to cultivators under the Land Improvement Loans Act of 1883 and the Agriculturists' Loan Act of 1884.

"The former enactment authorises the grant of loans by local officers, subject to rules laid down by the local Governments for the purpose of making any improvement, an improvement being defined as any work that adds to the letting value of the land. Wells take the first place among such works. Loans are repayable by instalments and recoverable generally as if they were arrears of land revenue. The Agriculturists' Loans Act makes similar provisions for advances for other purposes, not specified in the Land Improvement Loans Act but connected with agricultural objects, including the relief of distress, the purchase of seed and cattle. The rate of interest on Government advances is  $6\frac{1}{4}$  per cent. (one anna in the rupee) or less, as compared with 12 to 24 per cent. or more exacted by the village money lender; but advances are made only for specific purposes, they entail more formalities than the village loan, and the repayment is enforced with greater rigidity, so that in the past Government loans, though large in the aggregate have not had any great influence on the agricultural credit of the country."\*

This illustration shows how deficient is the supply of agricultural capital, and what is true of agriculture is also true of other indigenous industries, large and small, particularly small. The small savings of the people, it need

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\* Moral and Material Progress Report.

not be repeated, will have to be collected in banks scattered throughout the country and must be supplemented with State money. In France, for instance, the State assists agricultural and other associations with capital in this way. Of course, a sound system will have to be devised under which the object in view will be attained with safety to the tax-payer and consistently with the healthy progress of indigenous industries and banking.

**60. Summary.**—Adopting a classification of capital suggested by certain economists, we may have four different species of it: agricultural, commercial, industrial and financial capital. By agricultural capital is meant not land or landed capital but the tools, manures, cattle &c. with whose assistance the farmer gets a crop out of the soil. The farmer is not able to get this capital on easy terms and does not know how to use it remuneratively. The comparative inefficiency of Indian farming and the poor yield of the soil in this country, are the result of this scarcity of agricultural capital and the ignorance of the rayat. Commercial capital, so far as internal trade of the country is concerned, is not wanting and if sufficient banking facilities are provided, this form of capital may become available in the required quantities. Crores of rupees have been spent on the construction of docks, railways and roads, and though there are many parts of the country which have yet to be opened, India cannot now complain, on the whole, of the dearth of this form of capital.

Industrial capital is, however, the most important, and its supply in adequate quantities is the great need of India. Small industries are starving for lack of capital. Large manufactures can be started with the share capital supplied by a number of individuals, and they can be carried on on up-to-date lines. But the stream of industrial capital does not reach the small artisan and he has to

trudge through the ruts of primitive organization or be displaced from the economic field. There is an abundance of financial capital in India, mostly supplied by Exchange and Presidency Banks and, to a smaller extent, by Joint Stock Banks. The movement, to the ports, for export, of crops like cotton, jute, wheat and oil seeds, is financed on a very large scale by these banks which also assist the importers of foreign goods.

Though it is difficult to distinguish clearly between the different forms of capital we have considered and the line of demarkation is, in many cases, very faint, the various forms being only aspects of the same thing, the need of providing capital which directly assists the processes of industry is extremely urgent in India. The establishment of industrial banks which will supply capital for the starting of new industries is, therefore, urgently called for. Agricultural banks may also be started with advantage and together with the co-operative banks, they are calculated to render great assistance to the small producers who have, under existing conditions, to borrow at exorbitant rates of interest from rural money lenders.

The large industrial undertakings which have been recently started in the country and are conducted under Indian management, show that there is capital in India, which must, however, be properly tapped. Foreign capital is already in use to a large extent, but India must rely, in days to come, more and more on indigenous capital. The habit of saving must be inculcated and the small amounts of the millions must be collected in banks to irrigate the industrial fields thirsting for capital. Poor as the country is, by co-operation and organisation, it can supply the means with which to finance new industries and improve the existing ones.

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## Chapter VI.

### ORGANIZATION OF PRODUCTION.

#### REFERENCES.

Ely: *Evolution of Industrial Society*; Marshall: *Economics of Industry*; Theodore Morison: *Economic Transition in India*; *General Report on the Census of India*; *Report on the Joint stock Companies in India*; *Decennial Statement exhibiting the Moral and Material Progress and Condition of India*; A. K. Coomaraswami: *Indian Idealism*; *Imperial Gazetteer of India*, Vol. III.; Dr. H. H. Mann; *Life and Labour in a Deccan Village*; *Report of the Committee* asked to make proposals on the consolidation of small and scattered holdings in Baroda; *Provincial Reports on the condition of Indigenous Industries*; *Reports on the organisation and work of Co-operative Societies*.

**61. Industrial Evolution.**—Economists trace the development of the organization of the production of wealth through its different stages from the self-sufficing form to the factory regime of modern times. Production upon a large scale, with the assistance of large quantities of capital for an extensive market, is the characteristic of the present day. The use of machinery, the ease with which capital can be secured, and improvements in the means of communication, have produced remarkable social and economic effects. The cultivator no longer produces for his own family or his own village but supplies, though unconsciously, the most distant markets with the produce of his field. The artisan is no longer an autonomous worker plying his tools at home and the owner of the commodities he turns out. The craftsmen, as independent workers, have been displaced by machinery and they have been reduced to the condition of people working for a wage in factories owned by large companies or by wealthy individuals. The old local and national markets have become extensive and

international, and a minute division of labour and concentration in production, have been the result.

When life is very simple, a family is self-sufficient, producing every thing it needs, except perhaps a few articles which cannot be locally obtained. The use of machinery is both a cause and an effect of a minute division of an industry into different operations. Specialization is to be found not only in connection with separate crafts but also with distinct branches of the same craft. This industrial evolution may be marked in the economic history of every community, and India is no exception to the general rule. The 'capitalist' or 'factory' system has not, however, entirely superceded the domestic or craft systems even in western countries, and this phenomenon is more remarkable in India than elsewhere.

"Even now-a-days, although the factory is the characteristic mode of industry, all the other forms\* are still to be found. We see traces of domestic industry in the peasants' houses where the wife bakes the bread and spins the flax for the household linen; and in some of the provincial towns where jam-making, ham-curing and washing are done at home and have not yet become industries. In all towns a large number of artisans may still be found plying diverse trades and working for their customers as in the Middle Ages. And there are still manufactories which employ only hand labour."\*

Almost all the old indigenous industries are small and are carried on in the homes of the autonomous workers. The spinner, the weaver, the potter, the oil-presser, the shoe-maker are all workers of this type. They own the simple tools of their trades, but have very often to depend upon the neighbouring money-lender for the supply of capital in the form of raw materials and food &c. Very rarely craftsmen may combine and carry on the business on the partnership principle. Partnership

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\* *Guide to Political Economy.*

has been well-known in India from very old times and is generally practised in trades which cannot be well managed by a single worker, though assisted by the members of his family. 'Autonomous producers work in their own homes and turn out goods which command ready sale in the local or neighbouring market. They will also work to the order of local customers, but this demand is not sufficient and their goods are generally purchased by the merchants in the locality, who send them to different markets.

### 62. Situation in India.—

"The arts and manufactures of India are more easily separable into sections, corresponding with hand labour and steam power, than are those of most countries; for handicrafts, in spite of the mechanical developments of the past century, are still very important to the Indian people. The carpenter, the potter, the blacksmith, the weaver, the dyer, the tailor, the shoemaker and the sweetmeat-maker are recognized members of most village communities. The higher crafts—those of artistic workers in wood, clay, stone, metals, and textiles—are carried on in special localities and in direct relationship to physical and administrative conditions. 'When, for instance, hand labour industries are practised on a large scale they tend to become centralized in important towns: Steam-power manufactures are not in any way indigenous industries, but have been originated, and are controlled, by the supply of raw material and fuel, by the facilities of transport and by the degree of association with European enterprise.'"

Craftsmen working in their own homes may not often be autonomous producers. The merchant, who is also the money lender of the village or town, gives out pieces of work to be done in the homes of the craftsmen. He supplies the raw material but rarely the tools, and

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\* Decennial Report on Moral and Material Progress, 1913.

takes away the finished product, paying the worker only a small wage. The worker is thereby relieved of all responsibility and escapes the trouble involved in finding capital and disposing of the finished product. But he is, at the same time, reduced to the position of a drudge, and the sense of ownership and independence is entirely lost. The capitalist may also set up a factory in his own house and require the craftsmen to work there. He supplies the tools and the raw material and the workers are mere wage-earners. They share neither the responsibility nor the profits of the trade.

An employer who finds that there is a good and steady demand for a certain kind of commodities in a locality, will organize an industry in this way in a town, or artisans may be attracted to such an industrial centre by tempting prospects. Rajas and noblemen used to invite craftsmen to their towns and to give them special facilities to settle and ply their trades. The immigration of artisans led to the prosperity of the town as well as their own, and the localization of certain industries in the cities of old, in the times of Mahomedan and Maratha rule, may be traced to this cause.

"The silk and embroidery industry of Poona was entirely due to the encouragement given to the foreign settlers from Burhanpur, Paithan and other towns to come and live under the Peishwa's protection on house sites which were granted free to them. Individual merchants were encouraged in large towns to open shops with the help of Government advances."<sup>\*</sup>

The handloom weaving industry in India is a typical one, and the problem before the country in recent times has been how to enable it to stand the competition of power-looms. It is believed that the production of cloth in the Indian mills has not yet been able to overtake the quantity turned out by hand-looms and that if the weav-

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<sup>\*</sup> *Ramade: Introduction to the Peishwas' Diaries.*



ers are supplied with improved appliances and capital and if the industry is better organized, it has yet a good future before it. Attempts have been made to devise a suitable improved loom that may be used by the weavers with greater advantage, and weaving classes and factories have also been tried. It is, however, difficult to say whether these endeavours have met with any appreciable success.

**63. Large-scale Production:**—Concentration of capital and production of wealth with the help of machinery, render large economies possible and are calculated to yield high returns. A number of producers may thus combine together and the advantages of this kind of co-operation are obvious. Though co-operative production prevails to a certain extent in various countries, owing to peculiar causes, it has not made any notable progress. In India we have numerous associations for credit but there are extremely few societies for production, and in agriculture where the co-operative movement is spreading satisfactorily, this form of association finds little favour. The development of the factory system in this country has been synchronous with the growing application of the joint stock principle to industry. Under the factory system, which is the predominant characteristic of modern times,

'The capitalist employer not only provides the raw material and disposes of the finished product, but also controls the intermediate process. The machinery is so costly as to be beyond the reach of the workman; and since the machines are the property of the employer the building in which production is carried on, must also belong to him and is called the factory. The labourer is not his own master as in the handicraft system; he no longer owns the tools and the workshop as in the domestic system: all that he does is to provide the human labour force which is applied through machines and in work-places owned by the capitalist employer.

The stupendous increase of production which is thus rendered possible reacts upon the labourer both as producer and as consumer. Population increases enormously, and there is a continual drift from the country to the city. Industrial society receives its modern shape, and the social income is divided into the rent of the land-owner, the wages of the labourer, the interest of the capitalist and the profits of the entrepreneur."\*

The joint stock principle of association presents certain advantages: under it large enterprises requiring large quantities of capital can be easily undertaken and persons of small means find in it a safe method of investment on account of the liability for losses being restricted to the value of the shares held.

"The company form makes possible the raising of capital for the very biggest enterprise. It enables the holder of small savings, who does not wish to use them in business himself, and who is not in close enough touch with business to entrust them to any private firm, to invest his savings remuneratively. It is equally useful to the holder of big savings, since it enables him to distribute his capital among many enterprises (and countries), and so avoid the risk of carrying all his eggs in one basket. Since shares in joint stock companies are usually saleable the investor can realize his property in a business without breaking the firm up; if he were a partner in a private firm and wished to withdraw his capital, either he must find some other capitalist to take his place in the business by buying his share, or he must risk breaking up the firm, since it might be unable to continue without his capital. The joint stock company provides another opening for men with organizing ability but with no capital."†

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\* Sellgren.

† Henry Clay.

**64. Joint stock Principle.**—It is these advantages which have led to the rapid development of companies formed on the joint stock principle in western countries and that example is being followed in India. Most of the European industrial and commercial enterprises in this country are joint stock concerns. Railways, mills, factories, mines, tea gardens, banks, commercial firms and other concerns are joint stock companies. And almost all new industries started by Indians take this shape.

"The total number of companies limited by shares which have been incorporated in India upto 1915-16 under the laws relating to the registration of companies, amounts to 7,180. Of these, 2,476 companies were working at the end of 1915-16, most of the remainder having been either wound up, or otherwise discontinued or never having commenced business, so that about 65 per cent. of the companies registered have ceased working. Some companies have also been taken off the Indian register to be reconstructed as companies under the English law with their head offices in London. All the companies registered in India have a rupee capital with the exception of the Hongkong-Shanghai Banking Corporation which was registered in Calcutta in 1869 with a capital in Hongkong dollars of which the rupee equivalent is stated. The number of companies at work and the capital invested in them stood as follows at the end of each of the last three years :—

	1913-14.	1914-15.	1915-16.
Number of companies	2,744	2,545	2,476
Authorised capital Rs. (1,000) ...	2,33,33,91	2,30,19,47	2,24,20,90
Paid-up capital Rs. (1,000) ...	76,56,18	80,79,22	85,02,45

The number of companies registered in Bengal is over two-fifths of the entire number registered throughout India, but the average paid-up capital per company is highest in Bombay, and in this respect Burma occupies the second place, while Bengal the third, the figures for

the average being respectively Rs. 6,02,000, Rs. 5,08,000 and Rs. 3,26,000. About three-eighths (Rs. 3,41,56,000) of the aggregate paid-up capital is invested in mills and presses, chiefly for working and pressing cotton, jute, wool and silk. A great number of mills and presses are registered in Bombay, that presidency representing 50 per cent. of this sum (15,02,81,000) most of it being invested in cotton mills and presses. Further information on this point may be obtained from the following statement showing the distribution of the aggregate capital in the principal classes of joint stock enterprise at the end of 1915-16 :—

Class of Companies .	Num- ber.	Paid- up Capital.
		Ra. (1,000)
Banking and loan ... ..	460	8,34.04
Insurance ... ..	168	50.52
Navigation ... ..	32	1,33.16
Railways and tramways ... ..	54	10,24.73
Other trading companies ... ..	718	12,27.20
Cotton mills ... ..	196	11,42.15
Jute mills ... ..	37	7,79.71
Mills for wool, silk, &c. ... ..	15	99.71
Cotton and jute screws and presses ... ..	137	2,67.73
Rice mills ... ..	27	79.31
Flour mills ... ..	30	80.29
Other mills and presses ... ..	42	92.64
Tea planting ... ..	220	4,60.83
Other planting companies ... ..	32	46.07
Coal mining ... ..	144	6,12.03
Gold mining ... ..	8	37.91
Other mining and quarrying ... ..	58	5,33.21
Land and building ... ..	38	2,78.96
Sugar manufacture ... ..	18	80.89
Other companies ... ..	52	46.66
Total.....	2,476	85,02.45

**65. Industrial Enterprise.**—The recent tendency in India, it will have been noticed, is for the cottage and small industries to be replaced by large concerns carried

on mostly on the joint stock principle and with large quantities of capital. But the bulk of the concerns have owed their origin and success to European enterprise and managing capacity.

"The great majority of the larger concerns are financed by European capital, and in such cases the management or direction is generally European, and the Indians shown under this head are engaged for the most part on supervision and clerical work...In Assam, where 549 tea gardens are owned by Europeans and 60 by Indians, there are 536 European and 73 Indian managers. In the coffee plantations of Madras and Mysore the same principle is apparent. The jute mills of Bengal are financed by European capital and the managers are all Europeans; while in Bombay where Indians own 110 of the cotton spinning and weaving mills and share 25 with Europeans and the latter own exclusively only 12, all but 43 of the managers are Indians. Sometimes the proportion of Europeans employed in supervision &c. varies with the character of the work. In the gold mines, where the planning and control of the deep underground workings require a high degree of skill, Europeans outnumber Indians in the ratio of nearly 4 to 1, whereas in the collieries Indians are twelve times as numerous as Europeans."\*

There is need in India not only of skilled artisans, trained mechanics and capable foremen, but of enterprising organizers and managers. They will often rise and must be given opportunities to rise from the lower ranks, but general education and special training designed to turn out such persons, will also be necessary.

**56. Organizing Capacity.**—An industry or trade started by an enterprising man is bequeathed by him to his sons who will carry it on on the lines laid down. Several concerns are found in India, thus going on from generation to generation in the same families. Customary

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\* Census Report.

methods are adhered to and a business will go on successfully for an indefinite period of time unless it is ruined by utter incapacity or fraud of the managers.

"The son of a man already established in business starts with so many advantages that we might expect business men even to constitute a sort of caste, dividing out among their sons the chief posts of command, and founding hereditary dynasties, which ruled certain branches of trade for many generations together. But it is not so."†

In western countries where modern industrialism has an undisputed sway, accumulation of wealth in a few hands has given rise to a class division often as rigid as that of the Indian caste. The working and other classes rarely get opportunities to rise in the economic and social scale, and capital, though it is becoming democratised, is still the exclusive possession of the few, because to be employed in industry, it requires certain facilities which are not easily available.

In India trades and industries have thus become almost hereditary in families and are distributed among castes and communities. The Parsees, the Marwaris, the Baniyas and the Khojas, who occupy a prominent position in the industrial and commercial life of Bombay, illustrate the truth of this remark. The majority of mill-owners, it is said, do not prefer to send their sons or relatives to technical colleges as they do not like to work with ordinary labourers and it is the general impression that nearly all the students in the technical colleges are the sons of people of very moderate means and that very few of them, if any, appear to belong to families of wealthy manufacturers, whose sons should be training themselves to be officers in the industrial army.

"How are our Indian capitalists educating their boys? Wealth is a stewardship, and the accumulation

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\* Marshall; Economics of Industry.

of great fortunes in individual hands can only be excused on the ground of important services rendered to the country by those holding them."\*

What happens in the case of the sons of a wealthy business man is that

"at all events if they were born after he became rich, and in any case his grand children, are perhaps left a good deal to the care of domestic servants who are not of the same strong fibre as the parents by whose influence he was educated. And while his highest ambition was probably success in business, they are likely to be at least equally anxious for social distinction."†

Business capacity and enterprise are not hereditary, and the system of caste cannot ensure transmission of these qualities. Economic pressure is, however, bound to loosen the fetters of caste which impede progress, and classes and castes are already showing a noteworthy adaptability of which they were supposed to be incapable.

While, therefore, the extended provision of technical education for the creation of a class of trained operatives is necessary, and it is recognized that it is by dint of character and of perseverance that men must and do rise to higher rungs of the industrial ladder, it is believed that the 'most important factors in the increased production of national wealth would, in the case of India at least at present, be the leaders, managers, directors and supervisors of industries. It is the skill, capacity, and training of generals and captains which determine victories more than the bravery and steadiness of the rank and file of the army.' In America and other countries highly educated University men enter business and are found to turn out eminently successful. In Germany special provision is made for the training of organizers

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\* Report of Eighth Industrial Conference, page 414.

† Marshall.

and managers of industries. Under a suitable system of education there is no reason why it should not be so in this country also.

**67. Small Industries**—The displacement of the cottage industries and of autonomous workmen by factories and machinery, is going on apace in India, and the prospect of the potent evils of industrialism coming in the wake of this modern development of large concerns, has caused, and rightly caused, no small anxiety to certain people. The tendency to large-scale production seems to be inevitable; foreign competition and growing needs of the people seem to require it. But the decadence of the old arts and handicrafts, the vitiation of public taste which imports of machine-made cheap goods have caused, the degradation of the workmen to the position of wage-earners, and the migration of the rural population to overcrowded and unhealthy cities, are evils associated with the factory system, and the question has been asked: 'Is Europe going to make Asia an East end'?

Advantages of the concentration of capital and labour and of the use of labour-saving machinery, are undeniable and India cannot refuse to avail herself of them. Apart from the fact that evils of industrialism may be counteracted by timely measures and precautions, the people of this country cannot help trying to produce wealth with the least possible cost on the lines of progressive nations. But the day for the small industry is not entirely gone. On the contrary, certain peculiar conditions of modern times themselves are favourable to their continuance and growth. Popular taste requires certain hand-made goods, and thus varieties of dhoties and saris made by the handloom weavers have not been displaced by modern factories. Proximity of the market and of the customer also gives the cottage industry an advantage over the factory, and the former is now-a-days in a position to benefit by mechanical and other



improvements which are being made every day. The artisan in the west can now work in his own home with the help of cheap motive power and machine tools.

"The carpenter, if he is furnished with a very cheap motive power which is necessary to set circular saws or other machine tools in motion, will be able to work in his house as well as a great manufacturer. In this way he will be able to utilise his small group of machines in a variety of ways, until he will begin to acquire a perfect command over his work which he could not have been able to attain, if he had been a workman in a great factory. In spite of the advantages on the side of the big manufacturers, the small manufacturer will be in a position to compete with them. He will find an energetic support in the collaboration of the members of his family and in the moral element which will be the consequence of the work in his proper home. He will form a number of assistants and apprentices, or in fine, a complete industrial organisation quite analogous to that of the ancient professions but differing from it only in the introduction of the machines. The improvements of applied science can now supply him with the motive power at a very small cost. The modern developments of the use of electricity might now transmit motive power cheaply to the cottage of a small producer."<sup>2</sup>

We have referred on a preceding page to the possibilities of water power in this country and to the success of the Tata Hydro-electric scheme at Lonavla. That success has stimulated further efforts in the same direction and other schemes have been undertaken. If electrical energy generated by water power at different suitable centres in the country is transmitted over distances, many a home industry may be rehabilitated and placed on a sound footing. The hydro-electric schemes are calculated to serve a double purpose *viz.* to supply electric power and irrigate acres of land at the same time, and it is

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<sup>2</sup>Report of the Eighth Industrial Conference, Page 122.

possible to combine two different types of mutually helpful industries under one and the same project.† If gas and electricity are now providing social amenities to urban workmen, there is no reason why the craftsman and the mechanic should not be put in a position to avail themselves of their motive power for productive purposes.

68. *The old and the New*.—Co-operation in purchase, production and sale will enable the artisans to overcome difficulties presented by lack of capital and encroachments of large-scale industry. The preservation of the ancient handicrafts of India is an urgent problem in which are involved the interests not only of the millions whose subsistence depends upon them and who cannot be left to the tender mercies of the forces of foreign competition and modern industrialism, but also of Indian culture, indigenous arts and the social and economic well-being of the masses of people.

What is wanted is capital, organization, education and improved tools. "Do not let us compete" the exhortation is addressed to us. "with Western nations by evolving for ourselves a factory system and a capitalist ownership of the means of production corresponding to theirs. Do not let us toil through all the wearisome stages of the industrial revolution—destruction of the guilds, elimination of small workshops, the factory system, *laissez faire*, physical degradation, hideousness, trusts, the unemployed and unemployable and what may be to follow."\* Mr. Coomaraswami even asks if the 'true hope for Indian industry does not lie in some development of the caste system itself in the village and home industries of the past aided by such improvements as are needed e.g. the fly shuttle or the distribution of electric power.'

These remarks raise an extremely difficult problem relating to the evolution of industrial organization in

† See Memorandum submitted to the Industries Commission by Mr. R. B. Joyner.

\* A. K. Coomaraswami: *Indian Idealism*.

India. Until a few years ago, this country was in the same economic condition as England or France, for instance, about the middle of the eighteenth century. As a writer puts it,

"In the time of Louis XIV, when inventors were already becoming somewhat numerous, especially in England, the people of Western Europe for the most part continued to till their fields, weave their cloth, and saw and plane their boards by hand, much as the ancient Egyptians had done. Merchandise was still transported in slow, lumbering carts and letters were as long in passing from London to Rome as in the reign of Constantine. Could a peasant, a smith, or a weaver of the age of Cæsar Augustus have visited France or England eighteen hundred years later he would have recognized the familiar flail, forge, and handloom of his own day."\*

If an Indian craftsman of the time of Ashoka or Kalidasa were to visit the scenes of his activities now, he would indeed be astonished at the sight of the steam engine, the telegraph wire and the gigantic machinery working in a factory, but he would probably not fail to recognize the familiar handloom, wooden plough and bullock cart of his own day.

It is interesting to see certain spots in the country completely westernized; in several others a juxtaposition of the Western and the Eastern, the new and the old; and in most parts of the interior the ancient forms in their pristine integrity. The incongruity of bullock carts laboriously threading their way through the crowded streets of Bombay with their small burden of a few cotton bales while motor cars and electric tram cars whizzed past them every moment, has struck many observers; but it only typifies the curious evolution that is going on in the country. The most primitive forms of industry and

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\* Robinson and Beard: *The Development of Modern Europe*, Vol. II, Chapter XVIII.

organization may be witnessed side by side with the most up-to-date factories and machines.

Where modern machinery and motive power are not used, the industry is a home industry and is carried on on a small scale by autonomous workmen. We have indicated above how there is yet a considerable demand for products turned out by craftsmen in the old fashion.

"Weaving mills are at the present day responsible for by far the larger part of the cotton goods used in India; but at the census of 1901 twenty four persons out of every thousand were returned as cotton workers, apart from those employed in mills.....The hand and power industries occupy to some extent different provinces of supply; competition from the latter is still small in the case of special classes of goods and clothes woven from the coarsest materials, and there are still markets eminently suited to the hand weaver which the power loom producer does not successfully contest, because the demand is too small or too local."\*

**69. Lines of Evolution :—**What is true of cotton weaving is equally true of several other industries. And in the manufacture of glass, paper, sugar, metal utensils, vegetable oils, leather goods, woollens, silks, shawls, carpets and other articles, we have, at the present moment, a two-fold system, the modern factory working side by side with the domestic industry but trying to drive the latter out of existence. There is little scope under the old organization for any extensive division of labour and specialization, and the integration of industry on modern lines is not possible.

A geographical division of labour and localization of industries of a sort, has, however, always existed in India so far as that has been allowed by the self-sufficing character of provinces and districts created by distances and difficulties of transport. Climatic, political and social

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\* Decennial Report on Moral and Material Progress, 274.

causes brought together certain classes of workers in silk, wool, metals, and gold thread and industries connected with shawls, carpets, vessels &c. became localized. Dacca, Benares, Delhi, Amritsar, Shrinagar, Murshidabad, Ahmedabad, Masulipatam and Madura thus became great centres of industry. Each province has a similar industrial localization of its own.

The steady displacement of these hand industries by machinery driven by power, and the substitution of factories in the place of the domestic labour of autonomous workers, is the order of the day. Industrial development, therefore, means the starting of mills and factories with large amounts of capital. Though, therefore, the individualistic and partnership forms of production largely prevail in the country, the joint-stock concerns are tending to multiply. The following statistics\* in this connection will be found instructive:—

**Industrial Census:— 1912-13.**

No. of Factoriss ... ..	7,113
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No. of Persons employed—	
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(i) Direction, supervision and clerical.	
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European ... ..	9,437
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Indian ... ..	60,794
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(ii) Workmen.	
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Skilled ... ..	5,54,778
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Unskilled ... ..	14,80,815
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Total ... ..	21,05,824
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**Factories and other Large Industries.**

**1912-13.**

	No. of Factories.	No. of Operatives.
(a) Owned by Government and Local Bodies	152	79,933
(b) Owned and worked by companies or individuals.—		

\* Statistical Abstract for British India, Vol. I.

# LOOMS OF EVOLUTION.

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(1) Worked by mechanical power ... ..	3,220	9,00,978
(2) Not worked by mechanical power ... ..	495	77,230
	<hr/>	<hr/>
	3,867	10,58,141

## Factories coming under the Factories Act. 1912-13.

No. of Factories ... ..	2,654
Operatives Employed ... ..	8,69,643
Accidents ... ..	4,508
Persons convicted ... ..	104

## Important Factories. 1912.

Cotton gins and presses ... ..	1,539
Rice mills ... ..	327
Cotton mills ... ..	268
Jute presses ... ..	120
Saw mills ... ..	129
Railway workshops ... ..	65
Jute mills ... ..	65
Iron and brass foundries ... ..	48
Flour mills ... ..	41

## Cotton Mills.

	No. capital (lakhs).	Authorized Persons employed (1,000).	Looms (1,000)	Spindles (1,000)
Average 1878-80 to 1893-94 ... ..	63	657.6	51	14.5
" 1899-90 to 1893-94 ... ..	127	1161.7	116.1	25.3
" 1894-95 to 1898-99 ... ..	156	1419.5	150.0	30.6
" 1904-05 to 1906-09 ... ..	218	1878.7	218.4	60.0
1910-11 ... ..	254	2236.5	230.8	84.6
1913-14 ... ..	264	2245.7	260.8	96.7

## Production of yarn in mills in British India.

	Total Production (lbs.)	Exports (lbs.)
Average 1906-07 to 1910-11 ... ..	608,926,375	223,318,890
1911-12 ... ..	590,841,667	161,139,123
1913-14 ... ..	644,852,677	206,740,417

## INDIAN ECONOMICS.

## Production of Woven goods.

			(lbs.)
Average 1906-07 to 1910-11...	...	...	194,131,234
1911-12	...	...	252,126,207
1913-14	...	...	256,406,002

## Jute Mills.

	No.	Authorized capital lakhs of Rs.	Persons employed.	Looms 1,000	Spindles 1,000
1909-10 to 1913-14	60	1200·	208·4	33·5	695·8
1914-15	70	1289·3	238·2	33·3	795·5

## Jute Manufactures.

				Value in lakhs of Rs.
1904-05 to 1908-09	...	...	...	1,442·7
1909-10 to 1913-14	...	...	...	2,024·8
1914-15	...	...	...	2,582

## Paper Mills.

1914.

No.	Estimated authorized capital	Value of output
11	51·5 lakhs.	82 lakhs.

## Paper Produced in Indian Mills.

## Imported.

Rs.		Rs.
1910-81,52,000	...	1,10,06,000
1912-77,06,000	...	1,35,83,030
1913-80,37,000	...	1,59,00,000
1914-82,12,000	...	1,42,00,000

## Woollen Mills.

Goods Produced.		Imported.
Rs.		Rs.
1910 47,20,000	...	2,92,97,000
1912 53,83,000	...	3,81,42,000
1913 61,66,000	...	3,84,12,000
1914 80,09,000	...	3,15,35,000

**70. Caste:**—The caste organization plays a very important part in the social life of the people. The Panchayat of each caste controls the dealings of members

with one another in certain matters and discusses and decides various social and domestic questions and inflicts punishments upon offenders. Rules of the caste with regard to personal conduct are made binding upon individual members, and penalties are laid down for breaches of regulations. The panchayats sometimes also seek to regulate the industrial methods pertaining to the occupations of the castes, and offences against the community tending to lower its corporate character are duly considered.

"The Sunars of Hushangabad have a gild panchayat on the night before the Dashara, when they hold a feast, and are said to take an oath that none of them on pain of outcasting will disclose the amount of the alloy, which a fellow craftsman has mixed with the precious metals. The Koshtis of Chanda in 1907, proscribed a certain cloth and yarn seller of the city who had offended some of their number and resolved to outcaste any Koshti who dealt with him."

In his work, 'the Indian Empire', Sir W. W. Hunter has given a brief but interesting description of caste and pointed out clearly its economic and religious functions. He says:—

"There is, therefore, a plasticity as well as rigidity in caste. Its plasticity has enabled caste to adapt itself to widely separated stages of social progress, and to incorporate the various ethnical elements which make the Indian people. Its rigidity has given strength and permanence to the corporate body thus formed. Hinduism is internally loosely coherent but it has great power of resistance to external pressure. Each caste is to some extent a trade guild, a mutual assurance society and a religious sect. As a trade union it insists on the proper training of the youth of its craft, regulates the wages of its members, deals with trade delinquents, supplies courts of arbitration, and promotes good fellowship by social gatherings. The fabrics of mediæval India and the chief local indus-



tries of our own day, were developed under the supervision of caste or trade guilds of this sort. Such guilds may still be found in many parts of India but not always with the same complete development."

The same causes that wrought the disorganization and decay of the craft guilds in England are in operation in India to-day, and a readjustment of economic and social forces is steadily but surely going on. But trade unions and other organizations have not yet taken the place of the old institutions, and things are in a flux. Manufacturers and merchants have their organizations designed to safeguard and promote their common interests, but artisans and workmen are disorganized and helpless where the hold of the caste has loosened, as it is loosening on every hand.

India appears to have had village panchayats as distinguished from caste panchayats and corresponding to the merchant guilds of medieval Europe. We find a description of such a *parishad* in Manu Samhita. The function of these bodies consisted in deciding on all social, religious, economic and administrative questions affecting the village as a whole. Most of these organizations have now disappeared and we have survivals of only a few of them in certain parts of the country. But the vitality of the caste panchayats is greater; and the less advanced a community the closer is the hold of that authority on its members. There is but a slight analogy between the Indian caste and the English craft guild.\* In the former, social and religious functions predominate and in the latter it is the regulation of industry which characterises the organization.

**71. Guilds and Castes.**—The English craft guild was extremely exclusive and exercised a very rigorous control over membership, apprenticeship and the general practise of its particular craft. But it is not to be supposed that it

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\* Sir Herbert Risley: The People of India, page 259.

had no religious and social side of its own, and herein we trace a similarity between it and the Indian caste, though the English gild never made its occupation hereditary. That a person must be born in a caste to be entitled to be its member, is a peculiarity of the Indian caste. And even in India we see instances of absorption of castes and the creation of new ones or of subcastes. With regard to the English gilds, a writer remarks:—

"The religious side of the gilds has not so far come into much prominence, but most of them had this side to their activities, and indeed with some, religious and social duties had formed the nucleus round which the other powers had gathered. Pageants and processions on certain saints' days and formal attendance at worship, were part of most medieval associations, and more common still were alms and charities and prayers and masses for the souls of dead brethren."†

The idea of the inherent superiority and inferiority of certain classes and of the inheritable character of the qualities and functions of these classes did not get root in the European soil while in India the distinction of *Varnas* based upon qualities and actions alone, faded from the popular mind, and social divisions steadily multiplied as they became more and more rigid. Some castes do correspond to crafts, but in the case of several there is no such identity.

"The same caste may embrace several crafts, and as a rule, Mahammadans and Hindus engage in the same trade, each working for his own community. Sometimes they take recognizable sections of a craft and work separately. At other times they may be found in the same workshop; and Hindus now often employ Mahammadan craftsmen whereas formerly the Hindus were the labourers and the Mahammadans the employers."\*

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† Townsend Warner: *Landmarks in English Industrial History*.

\* Imperial Gazetteer of India, Vol. III.

Thus weavers are found among different castes and creeds, and in the Punjab,

"In the eastern districts the Julahas constitute a real caste, but further westwards distinctions of race tend to disappear. Khokhars and Pathans, Mirasis and Rajputs, and even needy Sayyads are found flying the weaver's shuttle for their livelihood in Jhang and Multan."<sup>\*</sup>

Changing popular tastes, competition of foreign and indigenous machine-made goods and the increasing use of improved tools, have disorganised and will tend more and more to dissolve this industrial organization based upon the principle of caste. Before the advent of machinery and the spread of general and technical education as also the changes which rapidly took place as a consequence, in social usages and ideas, had obliterated the distinctions among the different classes of work and of workers, even in a country like England, as Mill observes, the barriers which separated one industry from another were almost insuperable.

"So complete, indeed, has hitherto been the separation, so strongly marked the line of demarcation, between the different grades of labourers, as to be almost equivalent to an hereditary distinction of caste; each employment being chiefly recruited from the children of those already employed in it or in employments of the same rank with it in social estimation, or from the children of persons who, if originally of a lower rank, have succeeded in raising themselves by their exertions."<sup>†</sup>

A similar process is clearly visible in India and enterprising men are rising to a higher status in economic organization independently of all social distinctions. Not only will Brahmins become mechanics, foremen, contractors and engineers, but people of the lower classes also

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<sup>\*</sup> Ladd: 'The Industrial Punjab'.

<sup>†</sup> Principles.

are being enabled to organize industries and command labour and thus to override the limitations set by caste. .

The advantages incidental to caste organization are no larger serviceable to persons who aspire to rise in the social scale or to improve their economic condition. The regulations and restrictions of caste are, therefore, found to be impediments rather than helps and individualistic tendencies noticeable among members of castes will prove destructive to those organizations.

**72. Farming.**—The organization of production in India has to be studied in different aspects which simultaneously present themselves to the view and range between a poor peasant's simple cultivation of a patch of land or the occasional land tillage combined with other primitive occupations of the backward races that inhabit the jungles, on the one side, and on the other, the manufacture of the finest articles in a factory of the most modern type by up-to-date methods and on an enormous scale. Except in the case of a few big land holdings, agriculture is for the most part in the hands of small men.

Farming on a large scale is quite exceptional in India.

"In the rayatwari areas of Madras, for example, the average size of a holding does not exceed eight cultivated acres, while in the more thickly populated areas of Bihar, under the Zamindari system, the tenant holding averages less than half an acre."

Mr. Mackenna observes:—

"In England the farmer is generally a person of some education and substance, farming large acres and capable of applying the results of his reading. The great mass of the agriculturists of India are small holders and the standard of education among them is, as a rule, low. There are no agricultural papers to bring to their notice new manures or new machinery; in most cases they would not have the money to purchase them, nor the

science and knowledge to make much use of them when they had got them. I am well aware that in every province in India there are not a few highly educated and intelligent landlords and farmers; but as a rule the cultivator of India is a small holder. This, obviously, complicates the problem. Finally, the idea of seedsmen as we know them in England, with our Suttons and Carters, is practically unknown. Till a few years ago, the village Bania added this to his various lines of activity."<sup>\*</sup>

A few intelligent and enterprising landlords are indeed organizing their farming along more systematic and scientific lines; and sugarcane cultivation and fruit gardening, for instance, have proved more remunerative. Agricultural associations and co-operative societies may be expected to do some thing for the small cultivator by teaching and helping him in other ways to make his farming more remunerative. He may borrow capital or purchase seed from his society and carry out improvements suggested to him by demonstrations given by the officers of the Agricultural Department.

**73. Fragmentation of Land.**—But the greatest difficulty in the way of improvement is that the bulk of the agricultural holdings are not economic holdings. Mr. Keatinge defines an economic holding as one

"Which allows a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses. In the Deccan an ideal economic holding would consist of (say) forty or fifty acres of fair land in one block with at least one good irrigation well, and a house situated on the holding. The desirable area would vary greatly in different parts according to circumstances."<sup>†</sup>

The average holding is extremely small, often split up into several plots situated at a distance from one

<sup>\*</sup> Paper read before Royal Society of Arts.

<sup>†</sup> Rural Economy in the Bombay Deccan.

another and consequently it is absolutely uneconomic. The cultivator with such a holding cannot be expected to develop or improve his property and must live in depressing circumstances. He must eke out a living by taking to other occupations and working as a wage-earner either in his village or elsewhere.

In moving a resolution in the Bombay Legislative Council, recommending the adoption of measures to prevent the extreme subdivision of land which is going apace, the Hon'ble Dewan Bahadur Godbole described several cases of lands where partition had become absurdly minute. In the Kanara district, there is a compact piece of land measuring 52 acres and 1 gunta in extent.

" This land is divided at present into 40 separate survey numbers 14 of which are less than one acre in extent. The survey numbers are subdivided further and the whole of the 52 acres and 1 gunta are at present held by 139 occupants. Three of these holdings are of 1 gunta each. I might tell the Council that the Council chamber in which we have met to-day measures  $1\frac{1}{2}$  guntas. This will give the Hon'ble Members some idea of what a holding of one gunta means."

The inquiry made by Dr. H. H. Mann into the condition of a typical dry village in the Deccan, brings out the same fact into prominence.\* Under such circumstances, remunerative farming is an impossibility, and the cultivators have to supplement their income by doing other kinds of work, or to migrate to towns. Laws have been made in certain countries rendering possible the creation

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\* " It is evident from this that in the last sixty or seventy year the character of the land holdings has altogether changed. In the pre-British days, and in the early days of British rule the holdings were usually of a fair size, most frequently more than nine or ten acres while individual holdings of less than two acres were hardly known. Now, the number of holdings is more than doubled and eighty-one per cent. of these holdings are under ten acres in size, while no less than sixty per cent. are less than five acres."—Land and Labour in a Deccan Village, page 46.

of impartible holdings of a particular size.\* Increase of population and growing dependence on the agricultural industry are as much responsible for the evil of the extreme fragmentation of land as Hindu and Mahomedan laws of inheritance and the strong attachment of the people to their ancestral holdings. Spread of education, change of public feeling and a suitable modification of the existing laws of inheritance, are pointed out as remedies. But they are not likely to be efficacious unless new industrial avenues are opened to the people and they find congenial work in other fields. For an enterprising man to take to farming, a sufficiently large plot of land provided with water facilities and a decent amount of capital, will be needed. And fortified with these, there is no reason why a few of our more enterprising cultivators and even some of our agricultural graduates should not become successful farmers.

**74. Urban and Rural Industries:**—Small industries will be similarly remunerative if the workers have the necessary training, can command capital and can keep themselves in touch with the latest improvements in processes. Indigenous industries, wherever they exist, must be improved by the promotion of the efficiency of those engaged in them. In the competition of cheap foreign manufactures, local industries are bound to go under. Cloth, hardware, cutlery, paper, pottery, glass and a host of

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\* Read in this connection the interesting report of a committee appointed by the Government of H. H. the Maharaja of Baroda to make proposals on the consolidation of small and scattered holdings in the state. The report states that (1) land has already been minutely subdivided, (2) preventive measures must be taken and the present limit of subdivisions must be raised, (3) the growing subdivisions are mainly due to the operation of Hindu and other laws of inheritance, and (4) subdivisions have made agriculture uneconomic and wasteful by involving waste of labour and cattle power, and of land in hedges and boundary marks and by making it impossible to dig wells and use labour-saving implements. The committee recommends that the minimum dimensions of an economic holding may be fixed and also that a permissive Act may be passed to effect consolidation of existing small and scattered holdings.

other articles turned out in modern factories must displace corresponding goods of indigenous make. But properly organized and encouraged the indigenous home industries may hold their own against imported articles. There are scattered all over the country skilled workers who can turn out articles of any pattern. Locks, knives, nut-crackers, silver ware, brass and copper utensils, toys and leather goods, all of a high quality and finish, are made, and the Swadeshi movement has given some encouragement to these industries.

What is required in their case is not only patriotic patronage on the part of the people, but better organisation of production and sale. Though the railways have shortened distances, and brought even our villages in contact with foreign factories, indigenous industries still possess considerable advantage over them by reason of proximity of markets and of cheapness. As regards enterprises on a larger scale, young men who receive their training abroad, find it difficult to enlist the support of capitalists and cannot straight off start new industries. They do not also possess business capacity though they may have expert knowledge (which may not suit Indian conditions). Capitalists care more for fat dividends and high rates of interest and are unwilling to risk their money on new ventures. But this happy association of enterprise and training with capital, will be more in evidence as years pass by. Care is now being taken to see that the students who go out to foreign countries to learn, should have received some acquaintance with industries in this country and should be in a position to profit by training obtained in foreign institutions and factories.

In the meanwhile, experienced business men in command of capital, are found to be able to float new industrial concerns. The experience gained in the existing factories will prove useful in the work of starting new ones. But



this organization must be preceded by experimentation and research work. The possibilities of the raw materials to be found in abundance in the country, must first be proved, and a new industrial scheme must be an undisputed business proposition. The State will have much to do to create congenial surroundings and give direct and indirect assistance to industrial development. The appointment of experts is suggested for this purpose to Government, and Directors of Industries have been already so appointed in some provinces.

**75. The Future.**—We cannot close this chapter without adverting to the question which is raised by the oft-repeated statement that India is and must long continue to be a country in which agriculture will be the predominant industry. If this statement simply means that there is infinite scope for the improvement of the agricultural industry in this country and it will be many years before it will have established in its manufactures of the magnitude of those of England, for instance, there is nothing in the observation to which exception may be reasonably taken. But what is resented as unwarranted, is the insinuation that India must be satisfied with agriculture because her "sons" are incapable of starting and managing large manufactures and the idea that in the geographical division of labour, agriculture has been assigned to her as her peculiar province.

Agriculture is a noble industry and remunerative too, and every nation is trying to improve and encourage it. The productivity of the soil in this country is very low and may be appreciably increased. Improved farming will materially add to the national income and the efforts that are being made by Government in the matter of supplying seed of pure and superior quality for the cultivation of cotton, wheat, sugarcane and other crops, are efforts in the right direction. But to reduce India to the condition of a nation of cul-

tivators, would be to retard the progress of the people in all directions. The existence of diverse industries, particularly those that call for the exercise of high intellectual and moral qualities is essential for the healthy development of the people.

It is a mistake to suppose that India has ever been an agricultural country. It had, in the past, a splendid combination of agriculture and manufactures, and its wealth was the result of the profitable exchange between the country and the town. Replying to a question before a select committee of the House of Commons, Mr. Montgomery Martin observed years ago :—

"I do not agree that India is an agricultural country; India is as much a manufacturing country as an agricultural; and he who would seek to reduce her to the position of an agricultural country seeks to lower her in the scale of civilization. I do not suppose that India is to become the agricultural farm of England; she is a manufacturing country, her manufactures of various description have existed for ages, and have never been able to be competed with by any nation whenever fair play has been given to them. I speak not now of her Dacca muslins and her Cashmeer shawls, but of various articles which she has manufactured in a manner superior to any part of the world. To reduce her now to an agricultural country would be an injustice to India."<sup>\*</sup>

What is, therefore, wanted is the industrial resurrection of India. The ruralization of the country has gone to such a length, that the industrial achievements of the people, their talent, and their natural and acquired aptitude have been forgotten. The industrial and commercial glory of India appears to have passed into a myth, and an account of the old indigenous industries and arts will read like a fairy tale. Prof. Radhakumud Mukerjee has written an admirable work on the history of Indian shipping, and

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<sup>\*</sup> Quoted in "India in the Victorian Age" by Mr. R. C. Dutt.

therein he shows what great progress had been made by Indian people in that industry. He quotes a French writer thus :—

"In ancient times the Indians excelled in the art of constructing vessels, and the present Hindus can in this respect still offer models to Europe—so much so that the English, attentive to every thing which relates to naval architecture, have borrowed from the Hindus many improvements which they have adapted with success to their own shipping.....The Indian vessels unite elegance and utility, and are models of patience and fine workmanship."<sup>\*</sup>

This example will illustrate the inherent industrial capacity of Indian people and will point to the latent possibilities of the country. With systematic organization and patient and zealous encouragement, a variety of industries will rise in India, making her people progressive and prosperous.

**76. Summary.**—We have referred above to the different methods of industrial organisation which prevail in India as in other countries, and drawn attention to the requirements of the economic situation as it is affected by the existing organisation of production. It is not desirable to attain uniformity of system in this matter. The object to be aimed at is efficiency of production without detriment to the human factor. Whether it is agriculture or handicrafts or manufacture in big factories, the work has to be so designed and conducted that the highest results will be obtained.

No one should pin his faith to large-scale production alone, as in large tracts of the industrial field in India it is impracticable. Extensive sugar factories on the central

\* Radhakumud Mukerjee : *A History of Indian Shipping and Maritime Activity*.

The question of maintaining an Indian naval force for the defence of this country in particular and of the Empire in general, now looms large on the horizon. Here is an opportunity before the State to revive the shipping industry in this country. The revival will be an economic as well as a political boon.

system, for instance, are possible in Java and Mauritius but in a densely populated country like India, intensive cultivation is much more practicable and desirable, though farmers may derive immense advantage by co-operation. A general spread of education and an easy supply of capital will go a long way in making production more efficient in farming-as well as in the domestic industries.

Industries carried on on a large scale enjoy numerous advantages of internal and external economies and the present tendency is in the direction of production on a large scale. Undertakers, who have sufficient enterprise, must receive the co-operation of experts and capitalists, and must be enabled to start new concerns for which there is immense scope in this country. For this purpose educated young men must be equipped with sufficient scientific knowledge and practical training, and a large class of men must arise who will be capable of taking upon themselves the responsibilities of business management.

There is at the present moment much misdirected effort and waste of energy, and the forces of scientific knowledge are not being brought to bear on our indigenous industries and commerce. More of our people must take to business, but they must be thoroughly trained and equipped and ought to get opportunities to learn and rise. The old economic organisation is steadily crumbling and it has to be adapted to the changing conditions.

This is a very large problem, full of complexity, and no one remedy can be suggested for its solution. In fact, there are different solutions, according to the nature of the industry to be tackled. But this much is common to all of them, viz. that the producer has, in each case, to make the best of the resources at his disposal, and every kind of waste has to be prevented. The producer has also to be supplied with improved means, and it must

never be forgotten that the end of all wealth-creation is, after all, the improvement of man.

We close this summary with an extract from the Presidential address delivered at the 12th Industrial Conference by the Hon. Rai Sitanath Roy Bahadur :—

“Another very important requisite is efficient business organization. Organisation is the key to success, and the chief characteristics of modern industry are summed up in this one word. As regards the constitution of large industrial concerns, it is clear that individual ownership is, and must in the very nature of things be, very rare. We must, therefore, look to partnership, private companies and limited liability companies for the solution of our industrial problem. Hitherto the establishment of companies has not been very successful. This has been due to ‘a want of confidence in the capacity of the company promoters and, in some cases, want of honesty on the part of managers. Efficiency of industrial organisation depends in a very large measure on the moral and intellectual qualities of the persons in whom control and responsibility are vested. Unfortunately, we very often find that the Directorate Boards of many of our industrial concerns are composed of men who cannot bring to their work expert knowledge which is so essential for successful management. The duties of organisers of modern industry are so multifarious and so important that they cannot be safely left in the hands of amateurs. As a well-known economist observes, ‘the armies of industry can no more be raised, equipped, held together, moved and engaged without their commanders, than can the armies of war.’ For the proper training of such captains of industry, commercial education is essential. The would-be captain should, besides acquiring a general knowledge of economic science, make a serious study of the special problems which arise in this country regarding the production, distribution, and

exchange of commodities. The course of instruction ought to include subjects like commercial law and history, banking methods, import and export problems, exchange rates, transport, freight, and insurance, company management, and the conditions of markets. Commercial instruction is also necessary for those who are to occupy the positions of superintendents, auditors, and accountants, and even for men who are destined for the humbler positions in the commercial line. The best agency for imparting commercial education of the higher type, of course, is the University. Commerce forms a very important Faculty in almost every modern University of the world. In India, Bombay has already shown the way in this respect, and let us hope the other Universities will soon follow suit. In order to prevent a misunderstanding I wish here to make it clear that the mere possession of a commercial degree will not make a man a business expert. It is the school of experience alone which can turn out a successful business-man. But I hold that commercial education will furnish the groundwork on which experience will build."

## Chapter VII.

### PRODUCTION AND POPULATION.

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**77. Increase of Population.**—Prof. Marshall truly observes:—

"The production of wealth is but a means to the sustenance of man; to the satisfaction of his wants; and to the development of his activities, physical, mental and moral. But man himself is the chief means of the production of that wealth of which he is the ultimate aim."<sup>\*</sup>

We have already laid stress upon the peculiarly urgent importance of increasing the production of wealth of every kind in India, and pointed out that this can be ensured by an increased efficiency of the agents of production. An increase in population is itself taken as an indication of the progress and prosperity of a community. "In the first place," remarks Prof. Nicholson,

"defence is still of more importance than opulence, and an increase in numbers means in general an increase in military power—actual or potential. Equally obvious is the increase in man's power over nature. Even simple combination of labour has its advantages, as has been admirably shown by Mr. Gomme. Still greater are the advantages of complex co-operation, as we see in our own days in the rapid

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<sup>\*</sup> *Principles of Economics*.

development of new countries in which the progress of centuries is forced into a few decades. The growth of population is necessary to the improvement of the means of communication and of trade; trade brings capital and capital and land both give for a time an increasing return, and thus the increase of population means an increase of wealth per unit." \*

How important is the problem of the growth of population from the point of view of defence, has been demonstrated by the experience of the world-war. The size of the population in the belligerent nations has counted in it as a factor of primary importance, and for several years before the outbreak of the struggle, the stationary condition of the population in France had been a cause of anxiety and alarm. Colonies, where land is abundant and the soil fertile, invite settlers from the old world and immigration tends to augment wealth. An increase in labour power conduces to the efficiency of production and a growth of population will augment the national income. A natural increase of population is welcomed also because it represents an excess of births over deaths and bespeaks peace, health and prosperity in the community.

**78. Varying Conditions.**—It must be admitted that under certain conditions an increasing population not only denotes growing welfare but assists in the efficiency of the production of wealth and, therefore, the volume of the national dividend. But only under certain conditions.

"The increase of numbers may be accompanied by more or less general adoption of unhealthy and enervating habits of life in overcrowded towns. Or it may have started badly, outrunning the material resources of the people, causing them with imperfect appliances to make excessive demands on the soil; and so to call forth the stern action of the law of

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\* Principles of Political Economy.



diminishing return as regards raw produce, without having the power of minimizing its effects; having thus begun with poverty, an increase in numbers may go on to its too frequent consequence in that weakness of character which unfits a people for developing highly organized industry."<sup>\*</sup>

Prof. Marshall, therefore, concludes that it is only when certain conditions are satisfied that

'An increase of population accompanied by an equal increase in the material sources of enjoyment and aids to production is likely to lead to a more than proportionate increase in the aggregate income of enjoyment of all kinds.'

All countries are not, however, in the happy condition in which an increasing population leads to increasing welfare. But even granting that the above conclusion of Prof. Marshall applies to the majority of communities in the world, there is another aspect of the problem which demands consideration. Mr. Pierson observes:—

"When growth of population is accompanied by various occurrences that operate favourably upon production, and the average *per capita* income then increases, the growth of population will have exercised its harmful effects all the same; there would have been a far greater increase of the average income had there been no increase of population."<sup>†</sup>

As Mill remarks,

"All the nations which we are accustomed to call civilised increase gradually in production and population."

And therefore more importance must be attached to the side of production, inasmuch as the economic ideal must be to secure as large an income to the individual as possible. Malthus, therefore, sounded a note of alarm and pointed to a remedy more than a hundred years ago.

<sup>\*</sup> Marshall: *Economics of Industry*.

<sup>†</sup> *Principles of Economics*.

His doctrine has been the subject of a continued and animated controversy, but his position has remained substantially unshaken.

**79. Malthusian Doctrine.**—During the last few years production has made such giant strides as could not have been anticipated by Malthus, and recent developments appear to have falsified his gloomy forebodings that the production of food would not be able to keep pace with the increase of population. He had maintained that unless people voluntarily kept down the growth of population by moral restraint†, positive checks like disease would come into operation, making the lot of mankind miserable. And we are told that

“Everywhere we see wealth increasing at a greater rate than population—in new countries like the United States as well as in old countries like France. So that our first concern is rather in the opposite direction.”\*

This is true enough, and the birth-rate among the higher and well-to-do classes is lower than among the poor people.

“There is no question that this general situation—marriage rates virtually stationary and yet declining birth-rates—is due to deliberate abstention from propagation. Married couples have fewer children than before by deliberate intent.”‡

That is to say, it is the preventive check urged by Malthus, combined with larger production of wealth, which has brought about this result which is pointed out as a refutation of his famous doctrine.††

† By moral restraint he meant not the limiting of the number of children in marriage but celibacy, postponement of marriage and abstention from all sexual relationship. See Gide and Rist: *A History of Economic Doctrines*.

\* Charles Gide: *Political Economy*.

‡ Tausig: *Principles of Economics*.

These couples want to have all the pleasures of married life but not its responsibilities and they thus follow, consciously or unconsciously, the teachings of Neo-Malthusianism which are not, however, the same as the precepts of Malthus.

†† See note.†

Admitting, therefore, that the doctrine of overpopulation has lost its terrors for modern society and that the stress has been shifted from food to wealth and efficiency, and still further that 'since man is the chief labour force, large numbers, indeed other things being equal, mean greater national strength and power,' it must not be forgotten that

'The reverse may not be true if other things are not equal. A small nation with greater productive efficiency, like England, will outrank a more populous country like India. Smaller numbers with fairly equitable distribution of wealth are preferable to a dense population living in the extremes of misery and opulence. Mere numbers are, therefore, not the vital point.\*

It must also be borne in mind that 'a rate of growth sufficient to enable it to *keep pace with* population is not all that we require of production, otherwise the average income will never rise.' Subsistence is not always to strive to overtake expanding population, but it must be enough to afford an ever-increasing share of wealth to the population as we advance. A stationary population need not cause alarm.

'For mankind as a whole, declining birth-rates and lessening pressure on population mean progress, and not deterioration. The prevalence of habits of prudence among all strata means a gain in human happiness. Possibly the time will come when this sort of prudence will be carried so far that population in the advanced communities will no longer increase at all.†

**30. Application to Indian Conditions.**—The principles of population briefly discussed above, have got to be applied to the social and economic conditions of India with a view to an examination of the tendencies in

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\* Seligman: Principles of Economics.

† Pearson: Principles of Economics.

this country. The teeming population of India is spoken of with a sense of pride and satisfaction, but it may as well be an object of anxiety to a close student and ardent reformer. Quality must matter as much as quantity in the case of the population of a country; otherwise a mere increase in numbers is a veritable danger. In India "the total increase in recorded population between 1901 and 1911 was 2,07,95,000 or 7·1 per cent. as compared with 70,46,000 or 2·5 per cent. and 3,34,18,000 or 13·2 per cent. in the two preceding inter-censal periods."

Even making allowance for the increase which was due to the inclusion of new areas within the scope of the census operations, viz. 17,54,003, the growth of the population between 1901 and 1911, was considerable. And this increase has taken place in spite of the loss of life caused by famine, plague, malaria and other calamities.

"In the country taken as a whole, there are on the average 175 persons to the square mile or much the same as Europe outside Russia. In British territory the number to the square mile is 223 and in the Native States 100; the former figure exceeds by 34 the density ratio in France and the latter is identical with that in Spain."

The density of the population varies in the different parts of the country and is dependent upon the climate, quality of the soil, rainfall and other conditions. The following figures are instructive :—

	Density, Per sq. mile.	Rainfall. Inches	Cultivated area. Per- centage of total area.	Cultiva- ble area. Per- centage.
Madras ... ..	291	43	38	25
Bombay ... ..	143	46	38	25
Bengal ... ..	551	70	50	30
United Provinces ... ..	427	42	53	19
Central " ... ..	122	48	39	26
Burma ... ..	53	95	13	29
Punjab ... ..	117	31	33	24
Bihar and Orissa ... ..	344	53	52	21

"The predominant density factors in India are by no means those which count for most in Western countries, where the variations in the population depend mainly on the progress made in commercial and industrial development. In England, next to London and its environs, we find the most teeming population in Lancashire with its cotton mills, and Durham with its collieries. The density in these two counties is more than five times that in pastoral and agricultural counties such as Oxfordshire, Lincolnshire, Norfolk and Devonshire. In the latter the number of persons to the square mile nowhere exceeds 200, and in some it is much less; and it would seem that Trunniere's dictum regarding Germany to the effect that agriculture alone is unable to support more than 250 persons to the square mile is equally true of England and in fact of all parts of Europe. The conditions are quite different in India where two-thirds of the population is directly dependent on agriculture, as compared with less than 7 per cent in England. In large areas, such as the natural divisions which here form the basis of the division, manufactures and trade affect the density to a comparatively small extent; and even the number of individual districts whose density is greatly affected by the existence of trading and industrial centres is still comparatively small. Moreover, while in Europe, as we have seen, agriculture is unable to support more than 250 persons to the square mile, in India there are some purely agricultural tracts where it already supports three or even four times that number and others where it cannot support a tenth of it."<sup>\*</sup>

**51. Is there great Pressure?**—The growing pressure of the Indian population on land is admittedly a serious problem, and it has been adverted to before.† If agriculture alone is unable to support more than 250 persons to the square mile in Europe it is difficult to

<sup>\*</sup> Census Report.

† See above, pages 45-46.

understand how in a country like India where agriculture is the main industry of the people, a larger number can be supported without great hardship. But we are told that 'a fifth of the total population of the country is congregated on less than a twentieth of the area, where there are more than 600 persons to the square mile; a quarter more on a twelfth of the area carrying from 400 to 600 per square mile and nearly a fifth on an eighth of the area with the density between 200 to 400; and it is pointed out that 'nearly two-thirds of the total population of India occupy only a quarter of the whole area, while the remaining one-third is scattered over three-quarters of the area which is still very sparsely inhabited and nowhere contains as many as 200 persons to the square mile.'

This and the other arguments which are advanced\* to lend support to the view that in India population does not and need not press on the means of subsistence, have been carefully examined by Mr. Wattal in his most interesting brochure† and shown to be erroneous and misleading. Except perhaps in Central Provinces and Berar, no further agricultural development seems to be possible, and certain areas are still sparsely populated because they are poorer, rocky and inhospitable. If 500 or 600 persons are packed in an area of a square mile in some provinces it is because they are resourceless and their standard of living has become extremely low, and not because land can really support such a number. Thus with regard to the Konkan districts

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\* See W. W. Hunter's *British Empire*, Page 85.

Hunter observes that land is plentiful in the Native States and migration of the population from congested areas to those parts is required. He remarks, however:—"In some parts of India, this change in the relation of the people to the land has taken place before our own eyes. Thus in Bengal, there was in the last century more cultivable land than there were husbandmen to till it. A hundred years of British rule has reversed the ratio; and there are now in some districts more people than there is land for them to till. This change has produced a silent revolution in the rural economy of the Province."

† The population Problem in India.

of the Bombay Presidency, the latest Census report remarks that in proportion to its cultivable area, the Konkan supports a larger population than any other division. The soil is not especially fertile.

"There is a thriving fishery industry, and natives of Ratnagiri and Kolaba are employed as police sepoyas, choukidars and labourers in Bombay and lascars on ocean steamers and they remit a large portion of their earnings for the support of their families at home."

It is in this way that the population of the Konkan with 227 persons per square mile is supported, and it does not argue any remunerative character of agriculture there. Several other tracts may be found to disclose a similar phenomenon, and one would be hardly warranted in indulging in optimism with respect to the productive possibilities of a majority of provinces.

**82. Food Supply.**—Mr. K. L. Datt's investigation into the causes of high prices, revealed the fact that during the period under inquiry, the population of the country was growing faster than the food supply. He maintained :—

"Considering the growth of the population and the increase in the external demand, the supply has been short during the greater part of the period embraced in the enquiry. The demand for both internal consumption and exports having increased at a quicker rate than the production of food grains, it is only natural that the general level of prices of food grains, over a series of years would rise although in a particularly favourable year it might have fallen to some extent. The food supply in India compared with the demand, both internal and external, reached its lowest level in the quinquennium 1905-09, and this shortage of supply has doubtless contributed, in no small measure, to the unusual rise in prices during that quinquennium."<sup>\*</sup>

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\* Report on High Prices.

A comparison of the growth of population and of the production of food grains, is presented in the following table, in which index numbers representing the increase, are given :—

	Average of the quinquennium 1895-97 to 1899-95.	Average of the quinquennium 1895-96 to 1899-1900.	Average of the quinquennium 1900-01 to 1904-05.	Average of the quinquennium 1905-06 to 1909-10.	1910-11.	1911-12.
Population ...	100	101.6	103.7	105.7	107.8	108.4
Total area under cultivation ...	100	98	103	105	108	106
Area under food- grains ...	100	96	101	102	106	102
Production of food grains ...	100	98	105	99	113	109

In their Resolution reviewing Mr. Datta's report, the Government of India stated that the statistics on which reliance had been placed and had to be placed, suffered from the fault of inaccuracy and that inferences drawn from such data much be taken with an amount of reservation. They, therefore, presented their own figures which, in their opinion, were more reliable, and concluded that there was "an almost precise parallelism\* between growth of population and extent of cultivation", and that "the only interpretation which the figures can bear is that the correspondence between the two has been substantially maintained." Government also pointed out the

\* Lord Curzon also had pointed to a similar parallelism in 1901 in referring to the growth of food supply during the preceding twenty years, so that taking the most favourable view of the situation we can only console ourselves with the conclusion that we are not going back but have been marking time for about thirty-five years.



further consideration that extension of irrigation must have resulted in an improvement of the outturn and that the development of communications must have had the effect of enhancing the "efficiency" of the aggregate of food production.

Even admitting the view here presented as correct, we cannot feel that the situation is satisfactory, because it amounts to this that the increase in food supply is just able to keep pace with the growth of population. But it is argued that "the real problem as regards a country so situated is obviously to determine whether the purchasing power of the people generally has increased" and that the high prices of Indian exports in foreign markets have enabled the Indian cultivators to purchase larger quantities of the necessaries of life from abroad, which is tantamount to a larger production of wealth in this country. And Mr. Datta observes that,

"India has now to part with much less of her produce to meet her foreign obligations for the simple reason that her produce has risen in value in European markets."

It must be borne in mind, however, that so far as food grains are concerned, with a shortage of supply and prices ruling high in the Indian markets, they have never been imported in appreciable quantities from abroad. Government argue that the internal supply did not require to be supplemented by imports. But the true explanation seems to be that the Indian population must have been underfed and that it did not possess purchasing power sufficient to enable it to supplement its stock of food grains by foreign imports.

Higher prices of food grains cannot adequately compensate the Indian producer for the growing pressure of the population on the soil, because the general level of prices has gone up in India and the share of the cultivator in whatever benefit may accrue, is, for obvious reasons,

very slight. If more mouths have to be fed with the same or nearly the same quantity of food, the prices must rise, and this rise cannot be an object of congratulation or of consolation in view of the fact already noted that the closing of the other industrial avenues is driving many people on to land. To maintain a growing population, the soil must be made to yield more and the production of food grains per acre must increase owing to intensive cultivation. Agricultural improvements effected during the last few years have not augmented the yield to an extent of which account may be taken.\*

Apart from the commodities obtained in exchange for the raw materials exported from India, the productive power of the people cannot enable them to supply themselves with necessities of life in a sufficient quantity. Industrial specialization, under normal conditions, has its advantages and there is nothing inherently undesirable in a country exchanging its special products for those which are produced by other countries under peculiarly favourable circumstances. But India's dependence on the sole industry of agriculture which is in a very backward condition, amounts to a danger and has contributed to the decay and poverty of the people.

**83. Population and Food.**—We cannot here enter into a detailed calculation of the agricultural and non-agricultural income per head of the population in India. Widely varying estimates have been made and so complex and difficult is the calculation that one would not be entitled to pronounce any result as even substantially correct.

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\* "We may at a conservative estimate, claim that the increase to the value of the agricultural products of India as a result of the labours of its Agricultural Departments, is already about  $3\frac{1}{2}$  crores annually or over £ 2,300,000. This is the result of only ten years' work, and it must be remembered that every year will show a progressive increase."—Mr. Mackenna : Agriculture in India.

The annual value of the agricultural produce of British India is roughly estimated at 1,500 crores of rupees. Rs.  $3\frac{1}{2}$  crores means an addition of 7/50 per cent. to the annual total agricultural production!

But so far as any rough estimate may be made, the calculation does not point to the conclusion that a satisfactory improvement has taken place in the economic condition of the people during the last few years. We do not know how Mr. Mackenna came to the conclusion that the 'annual value of the agricultural produce of British India is taken at over 1,500 crores of rupees' that is about Rs. 45 per head of the population. And on this calculation, the total per capita income would be about Rs. 70. Dadabhai Navroji calculated the income at Rs. 20 per head of the population. Lord Curzon's estimate of the average income \* of Rs. 30, in 1901, is well known, and Mr. Crammond now puts it at about 37 rupees. We are inclined to accept this last estimate rather than the other though, as we have observed above, even an approach to accuracy is difficult to attain in this matter.

The Famine Commission of 1880 gave the following statistics :—

Population	...	180,350,000
Food Crops Area	...	166,250,000 (Acree)
Outturn ...	...	51,530,000 (Tons)
Consumption ...	...	47,165,000 ( " )
Surplus ...	...	5,165,000 ( " )

The Commission concluded :—

"The agricultural and trade statistics of the past twenty years justify the conclusion that the increased production of all sorts has, upto the present time, more than kept pace with the requirements of an increasing population, and the known large area of land which may still be brought under profitable cultivation and the possibilities of securing increased production by means of improved agriculture and extended irrigation afford reasonable grounds of confidence for the future."

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\* The gross yield of agricultural produce must not be confounded with income which is exclusive of the cost of production. But the two do not seem to be always distinguished.

The Famine Commission of 1898 also gave corresponding figures :—

Population ...	...	...	215,627,181
Food Crop Area ...	...	...	180,421,323 (Acree)
Outturn ...	...	...	68,069,972 (Tons )
Consumption ...	...	...	58,535,845 ( „ )
Surplus ...	...	...	9,564,127 ( „ ) .

This estimate of outturn was, however, excessive and another quoted by the Commission itself, put the production at only 56 million tons and, therefore, the surplus at 1,700,000 tons only. And the Commission proceeded to remark —

"Whatever may have been the normal annual surplus of food grains in 1880, the present surplus cannot be greater than that figure. But that a substantial surplus still exists in ordinary years there can, in our opinion, be no doubt."

**84. Agricultural Production.**—Lord Curzon, when Viceroy, had occasion, in 1900 and 1901, to form an estimate of the average per capita income of the population. He said that in 1880, there were in British India, 194 million acres under cultivation and in 1901, 217 millions, an increase parallel to the growth of population. In 1880, the yield per acre of food crops was, for calculation, taken at 730 lbs and for 1898, 840 lbs., improved cultivation and extended irrigation accounting for this higher rate. Lord Curzon proceeded to say that on these calculations the average agricultural income in 1880 was Rs. 18 per head and twenty years later for the same area, the average was Rs. 20. Supposing that the non-agricultural income had increased at the same rate, the Viceroy concluded that the total per capita income was Rs. 30 in 1901 as against Rs. 27 in 1880.

Now, to bring the calculation up to date, we take figures for 1915-16, and the following table of comparative statistics may be presented :—

Year.	Acres under cultivation Millions.	Yield per Acre of food crops (lbs.)	Population Millions.	Agricultural Produce per head. (lbs.) (Rs.)		Total Income per head. Rs.
1880	194	730	181	782	18	27
1901	217	840	230	830	20	30
1915-16	231	900	250	796	30	45

The average per capita agricultural produce does not seem to have increased during the last fifteen years though we have adopted a sufficiently liberal estimate for the yield in view of the extension of irrigated area and of other improvements.\* Lord Curzon commuted the yield at the rate of 40 lbs. per rupee for 1901, and we have taken 26 lbs. as the rate for our calculation for 1915-16 to make allowance for a rise in prices. Income expressed in terms of produce is, however, more reliable than that expressed in terms of money, and as the value of money has declined, a comparison of money incomes at two different periods is likely to be misleading. The purchasing power of money has decidedly gone down and if we put the depreciation at 50 per cent. the real per capita produce or income in 1915-16, will not show any improvement over the state of things in 1901.

We arrive at the same conclusion in another way. From statistics published by Government† we see that on

\* The crop-cutting experiments made by the Agricultural Departments show that roughly every five acres of land, of which one is irrigated and the others non-irrigated, yield, on an average, 900 lbs. of produce.

We assume that the average quality of the additional acres brought under the plough was good, if not better. "But the chances are that the average quality was poorer, in which case the ratio between population and subsistence was altered for the worse"—See an interesting discussion of this subject in Mr. William Archer's "India and the Future."

† See Agricultural Statistics of British India.

an average the value of crops grown upon irrigated land is Rs. 40 per acre and we have in British India about 42 million acres of irrigated land. The total value of the produce of this land must, therefore, be 188 crores of rupees. The value of the yield of non-irrigated land may be taken at half that of the irrigated and the 175 million acres will yield 350 crores more, the total thus being roughly 550 crores, which, divided by the population viz. 25 crores, gives Rs. 22 as the agricultural produce per head of the population.†

The same result is reached if we follow another line of calculation. The total land revenue of British India is about Rs. 34 crores. The incidence of the tax is not uniform in all the provinces. In some parts of the country it is permanently fixed and is comparatively light, in others the incidence is liable to increase and is heavy. Making allowance for the variations and for alienations of land revenue, we may roughly take the total realizable amount of the tax at 50 crores and assume that it represents, on an average, one-twelfth of the gross produce—an assumption which is certainly very liberal.\* Then the total value of land produce in British India would be Rs. 600 crores, and on this calculation the agricultural produce per head of the population will be Rs. 24. All these estimates, more or less rough guesses, point to the conclusion that the average agricultural production per head of population is extreme-

† Dr. Mann's investigations show that the income (profit) per acre in the village of his inquiry is Rs. 14-8. Calculations as to the agricultural yield would put the value of the produce per acre at Rs. 35. At the prices of fifteen years ago, this means Rs. 24.

Mr. J. C. Jack, I. C. S. (The Economic Life of a Bengal District—A Study) estimates the average income per head in the District of Faridpur at Rs. 22.

Dr. Gilbert Slater's estimate for the Madras Presidency is Rs. 78 per annum per head of the population, the value of the agricultural produce alone being taken at Rs. 230 crores for a total population of 41,405,404.

\* See Government of India's Resolution on Land Revenue Policy, 1908.

ly small and has not increased during the past few years.

**35. Famines.**—Famines which have harrassed India so frequently are now unknown in other civilized countries though they were common there formerly.

"To-day they are found only in the agricultural and mining industries. They are not as a rule very hurtful, except in countries industrially backward. A failure of the wheat crop may cause terrible famines in poor countries like India or Russia, and the insufficiency of certain raw materials may throw factories idle."\*

It has been said that Indian famines are not so much famines of food as famines of the means with which to purchase food. But now though the railways facilitate the transport of food-grains from one part of the country where they are available, to that in which the crops have failed, and to that extent the horrors of the calamity are minimised, a famine must always be a serious crisis of under-production. Not to go to earlier famines, we may refer to the failure of the monsoon in the United Provinces in 1907. Besides the other evils it entailed upon the people, the famine was responsible for a deficiency in food production equivalent to an amount of grain sufficient to feed the 48 million inhabitants of the province for five months. The total loss on food crops at both harvests, in terms of money, was put at Rs. 42 crores while the total loss on other crops was about Rs. 15 crores.

Famines and scarcity are, no doubt, caused by a failure of the rains and sometimes by floods, and Government have developed an elaborate system of preventive, protective and relief measures. It has minimised the danger of the loss of human life and also of cattle life. But as the Famine Commission of 1880 pointed out, no

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\* *Gide: Political Economy.*

protective measures can be adequate which did not include some attempt to diversify forms of employment. The problem of production and population cannot, therefore, be solved by these indirect methods, however useful they may be in themselves. A bold frontal attack must be levelled at the evil and the productive capacity of the people must be raised.

The growing demand for the raw materials of India and the higher prices which some of them may often command, should not be regarded as a gratifying indication of the growth of that capacity. That is, after all, a subordinate factor in the situation. Of course, larger exports of cotton, jute, oil seeds and hides at higher prices will mean a larger supply and therefore production of wealth in the country. That is, however, an inadequate and precarious source of wealth-creation. If those raw materials are produced in larger quantities, if there is a steady improvement in their quality and if an increasing portion of them is manufactured in India with Indian labour and Indian capital and under Indian management, the addition to the national income will be enormous. And then only will it be possible to support the existing or a growing population with anything like decent means of subsistence.

"It may be more cheap to export raw goods and import manufactured goods. But if India is to win a stronger position as buyer and seller in the markets of the world, she must deepen the channels and regulate the action of her stream of produce.....If the concentration of the agents of production on a great variety of undertakings is to prove advantageous, it must be on industries unaffected by drought. If the natural forces of international competition have not accomplished that aim, then deliberate and determined action alone can achieve it. " \*

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\* *Lovesday : Indian Femines.*



**86. The Outlook :—**The above discussion drives us irresistibly to the conclusion that without an enormous increase in its productive capacity, India can hardly maintain even its present population, much less steadily growing numbers. An increasing population must thrust the country deeper into the mire of poverty and misery. A steady growth of population in a country may be an indication of progress and prosperity. It may also be as much a cause as an effect of national poverty and decadence. The present standard of living of the mass of people is extremely low and the situation will be intolerable to all those who are anxious to see a substantial rise in it. Whatever progress is being made, will be just sufficient to overtake the normal growth of population. And what is wanted is a rapid improvement in the economic condition of the people, which can be secured only by increased efficiency.

"A real increase of wealth and prosperity comes to nations as it does to individuals, not from any reckless piling up of coined rupees—nor again from any rise of prices—which, as shown before, is in India almost invariably associated with crop-failures and famine conditions, but only from increase in industrial activity, energy, and efficiency on the one side, and on the other, from increased productive employment of capital. With us, there is a deplorable deterioration in both respects."\*

This gloomy picture would lead one to ask why the problem should not be attacked from the end of population also. A restriction of the growth of population will have the same effect as an increase in the quantity of subsistence as a larger share of national income will be available for distribution. The average increase of population, meaning thereby the excess of births over deaths, is by no means high in India. Whereas the natural

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\* Mr. Joshi's Writings and Speeches.

increase per thousand of the population is 10 in the United Kingdom, it is only 8 in this country. This figure is low, not because the birth-rate is small, as might be thought, but because both the birth rate and death-rate are comparatively high. A study of the statistics in this connection relating to the principal countries of the world discloses the fact that a high birth-rate is accompanied by a high death-rate, and the correspondence of the two rates means the correctness of the Malthusian doctrine. This state of things prevails in Rumania, Russia, Hungary, Saxony and Italy, and India stands in the same category with a birth-rate of 30 and a death-rate of 38 per thousand.

"Here are countries in which the population is pressing on subsistence. It is trying to increase faster than the means of support make possible, and the positive check is in operation. Not the positive check in its extreme form; the birth-rate is not at its maximum; some limitation of births there is. But more children are born than can survive and become adults and more persons become adults than can survive to peaceful old age. The populations are ill-fed, ill-clad, ill-housed, ill-warmed, ill-cared for in sickness..... In all these countries, an indispensable condition for a permanent improvement in the condition of the mass of the population is a lowering of the birth-rate—a relaxation of the pressure on the means of support."\*

**87. Remedies.**—These remarks apply, in a remarkable manner, to the situation in India. If our birth-rate is high, our death rate also is high. And a death-rate of 30 per thousand means waste of life, cares, anxieties, poverty, disease and distress. It will indeed be an ideal thing to be able to control disease and to conquer poverty. But in the face of the economic situation as it exists and as it promises to exist for years to come, will it not be desirable to check the birth-rate and thus relieve the pressure on subsistence? The economic situation and the

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\* Tausig: Principles of Economics.

prospects in India, then appear to call for the application of the Malthusian remedy. Late marriages of both men and women with a view to the controlling of the number of children, is that remedy. The necessity and wholesomeness of marriage are admitted, and therefore Malthusians recommend the adoption of voluntary restraint in married life.

We have not the space to notice, and it is not necessary to do it, the objections which have been raised to the self-restraint suggested by Malthus or to discuss the position of the followers of what is called neo-Malthusianism. And it is safe to agree to the proposition that

"it is advisable that people should not bring children into the world, till they can see their way to giving them at least as good an education, both physical and mental, as they themselves had; and that it is best to marry moderately early provided there is sufficient self-control to keep the family within the requisite bounds without transgressing moral laws."<sup>\*</sup>

Humanitarian feelings and solicitude for the welfare of children, if not of the whole nation, no less than personal ambition and a desire for independence and individual happiness, would justify the adoption of Malthusianism. The pathetic picture of a fairly intelligent and perhaps well-educated man, burdened with the anxieties of a large family, at a loss to know how to keep the wolf from the door and reduced to desperate shifts, to arts of flattery and slavishness, provokes the reflection that these troubles are entirely self-imposed and could have been avoided. And this reflection does not fail to arise in the mind even of pious and conservative people when they see widowers of forty and fifty going in for their second and third marriage and preparing for misery to themselves, their widows and their children.

**33. Indian Attitude.**—Malthusianism, and neo-malthusianism in particular, is sure to shock the average

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<sup>\*</sup> Marshall : *Economics of Indust.*

Indian mind as it did the European mind years ago. Hindu law-givers looked, and rightly looked, upon marriage as a necessary social institution and a sacrament. Perpetuation of the race is a sacred duty, and every man has to get out of the debt he owes to his father by leaving a son after him. Late marriage is prescribed in the case of men, but the performance of the religious duties of the house-holder makes the married state absolutely essential. The injunctions recorded in the works of Hind law-givers, show that they laid down rules for a society which required for its existence and progress, a growing population of vigorous, healthy men; and to shirk married life would have been regarded as shirking a sacred duty to the community. Prayers were and are offered to God for the grant of a healthy and vigorous progeny, and this attitude on marriage and the house-holder's life, finds a justification in the attempts now being made in western countries to encourage marriages and to reward large families.

The anxiety of the average Hindu to have a son and the shifts to which he is reduced in trying to secure one, have been objects of ridicule with certain authors.

"In the adoption of a son the Hindu aimed and still aims at satisfying an exacting group of manes greedy in the other world for recognition and offerings in this. He looks too for appreciable benefits which he is himself to derive from the future ceremonies the fruit of which will reach him in the realm of shades .....In somehow acquiring a son the Hindu thinks generally that he is making the best of all possible bargains for himself in this world and the one to come."\*

We have suggested above the true explanation of this Hindu passion to procure a son; and critical students

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\* West and Buhler: A Digest of the Hindu Law.

of Hindu law and usage have not failed to appreciate it. J. D. Mayne observes :—

"In modern times children are a luxury to the rich, an encumbrance to the poor. In early ages female off-spring stood in the same position but male issue was passionately prized. The very existence of a tribe, surrounded by enemies, would depend upon the continual multiplication of its males. The sonless father would find himself without protection or support in sickness or old age and would see his land passing into other hands when he became unable to cultivate it. The necessity for male off-spring extended in the case of the Aryan even beyond this world."†

**89. Changed Conditions.**—But times have changed, and with them must change social ideas, laws and customs. The struggle for existence—if not also education and the efforts of social reformers—is steadily pushing up the marriageable age of girls as well as of boys. In fact, early marriages of the latter are entirely opposed to the rule of *Brahmacharya* strongly insisted on by the ancient law-givers. And whatever objection may be raised on religious grounds to the postponement of marriage of girls, there is nothing to prevent wholesome restraints in married life being practised. Such moral restraints are clearly implied in some of the old restrictions imposed by wholesome custom on married people. Though it may be a little difficult to establish the fact, there is no doubt that the average expectation of life in this country has declined a good deal, and the strain of the modern struggle for existence is responsible for it. The same remark may be safely made with regard to the health of the average Indian. Under these circumstances, it becomes a duty of men and women in India to see that the nation has a healthy and vigorous population which will stand

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† Hindu Law and Usage.

comparison with other races, and will not go under in international competition.

To a Hindu, marriage and the begetting of a son, is a duty which he owes to society. But it is sorely to misunderstand the spirit of the law-givers and of ancient practice to suppose that religion imposes upon the householder the duty of begetting children for whom he can not hope to provide and that a limitation of the family by the exercise of prudence would violate the injunctions of religion and dictates of morality. Manu says :—

“ By the eldest as soon as born, a man becomes father of male issue and is exonerated from debt to his ancestors; such a son, therefore, is entitled to take heritage. That son alone, on whom he devolves his debt and through whom he tastes immortality was begotten from a sense of duty; others are considered as begotten from love of pleasure.”

If it was the sense of duty to society which animated ancient laws with regard to marriage and progeny, may not the same sense of social duty be pleaded in favour of a limitation of families? ‘Love of pleasure’ Manu speaks of, or blindness to the future, brings on misery to the individual and society and moral restraint which religion and reason insist upon, is calculated to make for health, wealth and happiness.\*

A low or declining Birth-rate is regarded as a sign of advancing civilization, and it is believed that the lower the birth-rate, the higher is the prosperity of a nation. The

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\* Malhus himself quotes in his ‘Essay on the Principle of Population’ (Chapter XI), passages from Manu and points out various circumstances which, in his opinion, must have operated in India as preventive checks to population. He says :—“From all these circumstances combined it seems probable that among the checks to population in India the preventive check would have its share; but from the prevailing habits and opinions of the people there is reason to believe that the tendency to early marriages was still always predominant and in general prompted every person to enter into this state who could look forward to slightest chance of being able to maintain a family’.

present tendency in western countries is towards a steady decline of the birth-rate accompanied by growing material prosperity.

"The general decline of the birth-rate in advancing countries; the accentuation of that decline among the well-to-do; the probability, almost certainty, that with wider diffusion of prosperity the tendency will spread more and more to all classes—at times is 'due to social and industrial ambition. Some writers have discussed the change as if it were automatic, as if the lower birth-rate among the well-to-do were the natural and necessary consequence of their having a large income. The connection between income and birth-rate is the other way; rising prosperity is rather the effect than the cause of declining pressure. The fundamental cause is the wish of each family to promote its own material welfare.'"<sup>†</sup>

**90. Vicious Circle.**—In the matter of this question of a declining birth rate, we seem to move in a vicious circle. The birth-rate goes down where economic conditions are satisfactory and the intellectual and educational level is high, and a low birth-rate is required to improve the economic condition of the community.

"The causes of the declining birth rate are to be found in the intellectual and material forces which have so wonderfully stirred the people of western Europe during the last century: the spread of education, newspapers and books; cheap movements by railway and steamship; the stirring of stagnant population by the new modes of employment, by large-scale production and the factory system, by the changes through emigration."<sup>\*</sup>

Unless then the stagnant population of India is educated and stirred and unless new modes of employment and methods of production are adopted, how is the

<sup>†</sup> Tansig: *Principles of Economics*.

<sup>\*</sup> Tansig: *Principles of Economics*.

birth rate in this country going to be checked? And will it not be much better if national efforts are directed towards the creation of those conditions which hold the propensity to multiplication in check?

These questions are suggested by the existing economic, political and social conditions in India. The aboriginal tribes are the most prolific races in India and the prolificness of the Mahomedans seems to be greater than that of the Hindus. It must be greater among the lower and poorer classes than among the higher. The exhortation, therefore, addressed to the people that instead of allowing the hand of death to limit the population to the means of subsistence, they should keep it under control and cultivate the habit of cutting their coat according to the cloth that is available to them, is bound to prove infructuous in India where of the total population of the country, only 59 out of every 1,000 persons are literate in the sense of being able to write a letter to a friend and to read the reply, and the literacy is divided very unequally between the two sexes, only 10 females per thousand being able to write against 106 males per mille. With 94 per cent. of population not knowing how to read and write, with an average income of Rs. 30 per head of the population and with about Rs. 12 of per capita foreign trade, it is not possible that the causes which have brought down the birth-rate in western countries should operate in India.

The extremely small class of the well-to-do, and the educated people who are a minute section of the population and who feel the strain of the struggle for existence most, may indeed exercise the moral check to their advantage, but that will not appreciably affect the national birth-rate. The generally high birth-rate in India is attributed to the large proportion of married women and this is not likely to be changed for years. It is futile to raise the marriageable age of



boys only, but it is extremely difficult to raise the age in the case of girls. We have shown above that though the birth-rate in India is very high, the excess of births is extremely small, not more than 8 per thousand. While, therefore, the application of the Malthusian principle seems to be called for, there is a bitter complaint about race suicide among the Hindus, at any rate, of certain provinces. The increase among Mahomedans and Christians is much higher than among the Hindus, and this fact is causing anxiety to many. The following figures will make the situation clear :—

	Actual number in 1911 (in millions.)	Variation per cent.		
		1901-11	1891-01	1881-1911
Hindus	117.5	5.0	-3	15.3
Muslims	66.6	6.7	8.9	33.0
Christians	3.8	32.6	28.0	108.1

The difference in the rate of increase is not satisfactorily accounted for by conversions from one faith to the others or similar other causes, and it is attributed largely to the peculiar social customs of the Hindus such as child marriage and prohibition against widow marriages. The high rate of infant mortality also keeps down the natural increase. A writer commenting on this feature of the population statistics observes :—

“The moral of all these facts is plain. The Hindus are not yet a dying race, but surely they are on that track. Fortunately, its causes are perfectly plain. They have to thank their own social customs, which, as we shall see later on are ruining them in several other ways too. In spite of Muslim rule for over a thousand years, the Hindus formed 80 per cent. of the population of this country in 1870, but now they are not even 70, and the decimation comes this time from within and not from without—surely a harder foe to combat. The momentous question is: Are we to remain indifferent in the face of this crisis?”\*

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\* M. S. Kamat: The Census of India.

It is an interesting phenomenon that the fecundity of marriages is not high in India compared with that in England, for instance, in spite of the universality of marriage and early marriages in this country. The births per thousand of females of reproductive ages (15-45) in England and Wales calculated on the figures of the census of 1911 were 98 against 128 in India. But if births are calculated on the number of married females of those ages and not on the total number of females between 15 and 45, the Indian figure stands at 160 against 196, the figure for England.†

**91. Conclusion.**—Over-population is a relative term, and whether a given population may be maintained in comfort, will depend upon its productive capacity. As a fertile piece of land will feed more mouths than a sandy one, a group of industrious persons will produce a larger quantity of food than one of lazy people. A lower standard of living will likewise enable a larger number to be supported than a uniformly high standard. A growing population must have a proportionately increasing quantity of subsistence if its standard of living is not to be lowered. A community must, therefore, produce more to keep pace with the increase in its numbers. An increase in numbers often means an augmentation of the productive capacity of the community and is, therefore, not an object of anxiety. But the law of diminishing returns will come into operation when a certain stage of increase is reached and the result will be deterioration and misery.

Growth of population, in itself, is not a sign either of progress or decay. It is checked by diseases, famines, and wars or its growth may be limited by human prudence and moral restraints. Under favourable conditions neither the positive nor the preventive checks may be called into

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† P. K. Watal: *The Population Problem in India*.

operation and a vigorous population will produce more wealth than is absolutely necessary to support it. If the pinch of increase is felt, migration and emigration will be resorted to and the pressure will be relieved; and better organized and more efficient methods of production and distribution will have the same ameliorating effect. Ambition, the desire of independence and absorption in intellectual pursuits will lead people to postpone or avoid marriages and the number of children brought into the world will tend to become smaller in a community where such persons form a large portion of the population.

There is no doubt about the fact that in India two or three generations ago, as in earlier centuries, the means of subsistence were ample in comparison with the population. Positive checks were also largely in operation and therefore the pressure of population was not felt. With the establishment of peace and steady government, under British rule, however, a gradual increase in numbers began which was checked only by famines and diseases. The increase was not accompanied by a proportionate augmentation of the productive power of the people, indigenous industries\* having declined in the meanwhile, and the effects of over-population began to be felt. Things began to look up a little with the increased demand for India's raw materials and the consequent rise in their prices. But this is not enough to meet the requirements of a growing population, much less to raise its standard of living.

The problem may be solved by emigration and internal migration. But scope for this is small. Indians are not treated well in the Colonies, in some of which the door is slammed in their faces. Internal migration is possible to a certain extent, from thickly populated districts to tracts where population is sparse. Land which is not cultivated or which is not properly cultivated, may be made to

yield a larger quantity of food. But the most efficacious remedy is to enhance the productive capacity of the soil all over the country. There are indeed serious difficulties in the way, but something may be done in this direction. We, therefore, ultimately come to this that the pressure of population on the means of subsistence can be relieved only by the spread of education, an improvement in all-round efficiency and by a more efficient organization of production. The prospect in the immediate future is not, therefore, bright and moral checks to population would prove useful.

In India, though the actual excess of births over deaths is not very large, both the birth-rate and the death-rate are extremely high.

"Broadly speaking, the actual checks to population in China, India, and many other parts of the world are still those so well described by Malthus. In India it is true, British rule has abolished civil war, and the total population has increased very rapidly during the last century as railways, irrigation works, and other modern innovations have added to the productive capacity of the country. But famine is still lamentably frequent, and in spite of industrial progress it would seem to be true that the population readily rises up to the limits of the means of subsistence."<sup>\*</sup>

Postponement of marriage and conscious limitation of the numbers of children in families are the preventive restraints suggested by Malthus and advocated by his followers, which have succeeded in keeping down the growth of population in western countries. The remedy can be adopted by educated people in India, but the masses cannot appreciate the situation. As enlightenment spreads, the rate of growth declines and the increase takes place

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\* W. T. Lyeon: Introduction to An Essay on Population by Malthus.

only among the lower classes. The Malthusian remedy is not, therefore, likely to be resorted to in such a way as to produce any appreciable effect upon the natural growth of population in India.

**92. Summary.**—Though the doctrine of population which Malthus formulated under peculiar economic conditions, is not one of universal applicability, as conditions of wealth-production have vastly improved since he wrote, the optimism which some economists display on this question, is not justifiable in view of the miserable condition of the mass of people in certain countries. "Organization and science have, in fact, so immeasurably enlarged man's control over the forces of nature that her productivity has increased far more than population even though the latter has grown at a quite unprecedented rate in the industrial countries of the world." There is, however, no guarantee that this excess of subsistence over population will be maintained even in progressive countries.

Improved economic conditions in western nations have raised the general standard of living and the marriage rate has steadily declined, more markedly among the higher than among the lower classes. A desire for comforts and luxuries works as a check on marriage and also upon the size of families. The growing independence and improved social status of women have combined with that desire to restrict the growth of population which has not, however, been kept down owing to the diminution of mortality. The death-rate is declining as the result of improved sanitation and health, and the steady increase of population is being maintained. Progress lies in an increasing amount of wealth falling to the share of the individual members of the community, and it is desirable that even in prosperous communities the population should grow at such a rate that it may bear a more favourable ratio to subsistence.

That population in India is pressing on the means of subsistence and that what Malthus called positive checks, are keeping down the natural growth of population, is undoubted. The death rate may go down with improved sanitation but unless there is a substantial improvement in the economic position of the country, there is no hope of the well-being of the people being appreciably promoted. There is growing pressure on the land and other industrial avenues have been blocked. The problem of population must be attacked from the side of production, and the means which western communities have employed to increase their command over nature and their total stock of wealth, have to be employed also in India. With the application of science, the soil may be made to yield more and the expansion of manufacturing industries and commerce, will increase the national income.

The problem is also capable of being attacked, but to an extremely small extent, from the side of the growth of population, and preventive checks consisting in the postponement of marriages and the conscious limitation of the size of families, if applied, will act beneficially on the progress of the country. The birth-rate is generally very high among the lower and less intelligent classes; and among them the moral check will not come into operation. Educated people, who are a drop in the ocean, may, however, face the struggle for existence better by resorting to moral restraints, which are in no way opposed to religion or morality. Sexual desire is, no doubt, a powerful impulse and acts with great force in low stages of civilization and among the lowest classes of civilized communities. But it is not a fixed impulse that cannot be controlled and modified.

The spirit of Hindu laws and religion does not militate against, but actually enjoins restraint of the passions, even in the matter of the begetting of children.

Marriage is a social duty and a man has to make his contribution to the maintenance of society and the perpetuation of the race. But the self-same duty may require the limitation of numbers in certain circumstances. A healthy and vigorous population has been the Indian ideal, and the problem to-day is how it shall be attained in the changed social and economic conditions of the country.

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## Chapter VIII.

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### THE ECONOMIC REVOLUTION.

#### REFERENCES.

Bastable: *Theory of International Trade*; Banade: *Essays on Indian Economics*; Strachey: *India, its Administration and Progress*; Chomney: *Indian Policy*; D. E. Wacha: *Four Papers on Trade and Industry*; H. F. Howard: *India and the Gold Standard*; *Statistical Abstract for British India, Vol. I*; Loveday: *Indian Famines*; G. V. Joshi: *Writings and Speeches*; R. C. Dutt: *India in the Victorian Age*; *Imperial Gazetteer, Vol. III*; Henry Clay: *Economics for the General Reader*; *Annual Administration Reports on the Railways in India*; *Annual Review of the Trade of India*; Radhakumud Mukerjee: *History of Indian Navigation and Maritime Activity*.

**93. Exchange.**—Except in a state of primitive economic organization, the work of wealth-production is not completed till the commodity produced is taken to a place where it will find purchasers. A worker may indeed conceivably produce for his own consumption, and not to speak of old times, in backward communities even at the present day, self-sufficing families and communities are not quite uncommon. But a division of labour is found necessary as a community advances, and specialization and co-operation in the case of individuals and groups of individuals, characterise the progress of civilization. Individuals exchange with one another the goods they have produced and thus satisfy their special wants. When one commodity is exchanged for another without the intervention of a third, which is the measure of value, we have a case of barter, and the use of such a medium of exchange bespeaks the advance of a community to a money economy.

In the village life of India, exchange is very simple and most of it is of the nature of barter. The cultivator will often buy his implements and clothes by exchanging the produce of his fields for them, and wages are also paid



in kind. Formerly the revenue of Government was paid in grain, but the system of barter is fast giving way before the use of money and is now almost unknown in towns. The medium of exchange having recently come into greater use, a struggle for the possession of money as a passport for the purchase of any desired commodity, is becoming universal except in out-of-the-way places to which modern methods of trade and industry have not yet penetrated.

It is impossible to overestimate the advantages of exchange, and a comparison of the ease with which even a person of ordinary means can, now-a-days, obtain a variety of articles, necessities of life and luxuries, in his own locality, with the extreme difficulty experienced in the matter only a few years ago, will be instructive. When a district is afflicted with scarcity, it can bring grain from neighbouring or even distant districts and provinces. Burma thus supplies large quantities of rice to the rest of India in times of drought.

**94. Markets and Fairs.**—On market days and fairs, villagers go regularly to the neighbouring town, and all kinds of purchases are made. These provide opportunities both to sellers and purchasers to dispose of surplus produce and to procure the articles required. In very small villages, there is hardly a single shop for such necessities of the rayat as kerosene, chillies, salt and vegetable or luxuries as sugar, and they have to be regularly procured from the town hard by or from the market held regularly once or twice a week. At these markets articles can be had in sufficient variety and in the required quantity, and the prices also are reasonable. Cultivators, weavers, potters and other producers take their goods to the market or fair where they command a large sale and middlemen and merchants also do a large business on market days.

Where villagers, whether cultivators or artisans, exchange the produce of their labour directly to satisfy their wants, it is a case of barter. The cultivator will then obtain his cloth, shoes, earthen pots, &c. from the village artisans in exchange for the *baluta* or fixed grain charge paid to them annually. This village system is, however, being steadily displaced, and payment of money is becoming common. In markets and fairs, this is, of course, the usual practice. Every village of decent size, has a shop or two of groceries and this is the only source of the supply of articles of every day use to the villagers. Other things must be purchased on market days pointed out above. The weekly markets in certain places are of great size and attract sellers and purchasers from miles. Families lay in a stock of necessities to last them for a week. Knick-knacks, sweetmeat and articles of luxury are generally purchased at fairs, most of which are associated with religious or social festivals.

Any extensive division of labour in the sale of commodities, is not possible in small places. It is only in big villages and towns that merchants and shopkeepers specialise in the sale of articles. The shopkeeper plays a very important role in the village community, and in small towns too he discharges a useful function. He keeps a pretty large stock of goods ready to meet the demands of his customers whenever they may choose to buy. He procures his supplies from different commercial and industrial centres and retails the articles as they are wanted.

Railways, which now traverse the whole continent, have revolutionised this old system of exchange. The network of railways covers the whole country and has brought distant provinces in close contact with one another. Before the fifties of the last century, the means of communication in India were difficult, and though commerce was maintained between north and south and east and

west, it was precarious and its volume extremely small. Inter-provincial trade has enormously increased since then and the surplus of one province and district goes to supply the deficiencies and needs of other provinces and districts.

**95. Ancient Indian Commerce.**—This stimulus which the improvement of the means of communication, such as railways, steamships, metalled roads &c. have given, is most markedly seen in the wonderful development of the foreign trade of India. The sea-borne and foreign trade of India has had a brilliant history. The valuable products of Indian workmanship and of the Indian soil, attracted merchants from all parts of the globe and the people of this country carried on a profitable trade with the most distant parts of the world.

“From the earliest days, India has been a trading country. The industrial genius of her inhabitants even more than her natural wealth and her extensive sea board, distinguished her from other Asiatic lands. In contrast with the Arabian Peninsula on the West, with the Malayan Peninsula on the East, or with the equally fertile Empire of China, India has always maintained an active intercourse with Europe. Philology proves that the precious cargoes of Solomon's merchant ships came from the ancient coast of Malabar. The brilliant mediæval republics of Italy drew no small share of their wealth from the Indian trade. It was the hope of participating in this trade that stimulated Columbus to the discovery of America and De Gama to the circumnavigation of the Cape of Good Hope. Spices, drugs, dyes, and rare woods; fabrics of silk and cotton; jewels and gold and silver—these were the temptations which attracted the first adventurers from Europe.”\*

The prosperity of ancient Indian commerce is a matter of history, and it will be no exaggeration to say that the political development of the nations of Europe, and therefore of the whole world, has been shaped by the

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\* Sir W. W. Hunter: *The British Empire*.

keen competition of European powers for the monopoly of Indian trade. The position of India was simply unique.

"We shall have ample evidence to show that for full thirty centuries India stood out at the very heart of the Old World, and maintained her position as one of the foremost maritime countries. She had colonies in Pegu, in Cambodia, in Java, in Sumatra, in Borneo, and even in the countries of the Farther East as far as Japan. She had trading settlements in Southern China, in the Malayan Peninsula, in Arabia, and in all the chief cities of Persia and all over the east coast of Africa. She cultivated trade relations not only with the countries of Asia, but also with the whole of the then known world, including the countries under the dominion of the Roman Empire, and both the East and the West became the theatre of Indian commercial activity and gave scope to her naval energy and throbbing international life."†

The history of India's foreign trade during the seventeenth and eighteenth centuries, is a record of the commercial rivalries and of a struggle for trade supremacy among the Portuguese, the Dutch, the French and the English. One after another these rivals dropped out, and the British East India Company remained master of the field.

"Just before the first half of the eighteenth century, the English had to face the open hostility of the French; and the history of trade is merged in that of territorial acquisition, till in 1813 the trading functions of the Company in India were brought to a close, except so far as the monopoly of trade with China was concerned and this also ceased in 1833."\*

India's foreign trade in the beginning of the nineteenth century, was comparatively very small. The European adventurers had not been able to penetrate the

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† Radhakumud Mukerji: *A History of Indian Shipping and Maritime Activity*.

\* *Imperial Gazetteer*, Vol. III, page 559.

interior of the country and there were no facilities for such impenetration.

"It was in fact practically impossible to penetrate inland or to draw thence to the coast any of the products of the interior; and even if facilities had existed for local traffic, it would have been impossible in the conditions of navigation which then existed, to convey to Europe at a profit the bulky articles of low value which now maintain great fleets of ocean steamers and are the staples of Indian trade." \*

The monopoly of the trade and the disturbed nature of the internal state of the country, were additional causes which limited the dimensions of the foreign trade. The East India Company, however, selected precious cargo which fetched enormously high prices in England, and the dividend it gave in 1832 was 150 per cent.

**96. Under Company Government.**—The Mahomedan and Hindu rulers did not and could not devote much attention to the development of foreign trade. The country was so rich that it was not felt necessary to exchange indigenous produce for foreign imports to the same extent as it was in European countries which vied with one another to obtain the valuable products of India. As Sir W. W. Hunter remarks, the British rulers were not temple builders like Hindu kings or palace builders like Mahomedan nabobs and emperors, or fort-builders like the Maratha warriors, but they were essentially builders of commercial towns, and their talent lay in selecting and developing centres of trade. In the hands of the British East India Company, which had become a territorial and sovereign power by the beginning of the nineteenth century, foreign trade steadily increased in dimensions. At the beginning of the eighteenth century the value of exports hardly amounted to one million £, but by 1834, it exceeded £ 8 million.

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\* Imperial Gazetteer, Vol. III, page 259.

The Industrial Revolution in England which meant the introduction of steam power and machinery and consequently the production of cheap articles on a large scale, synchronised with the decline of the industries of India, which was reflected in and assisted by India's foreign trade. Indian trade was opened to private merchants in 1813, and during sixteen years after that date, the Company's trade averaged £ 1,882,718 annually, while private trade averaged £ 5,451,452 annually.

" The process of the extinction of Indian manufactures went on, however, under the new arrangements; in 1813 Calcutta exported to London two millions sterling of cotton goods; in 1830 Calcutta imported two millions sterling of British cotton manufactures. The first import of British cotton twist into India was in 1823; in 1824 it was 121,000 lbs.; in 1828 it rose to 4,000,000 lbs. Woollen goods, copper, lead, iron, glass and earthen ware were also imported. British manufactures were imported into Calcutta on payment of a small duty of  $2\frac{1}{2}$  per cent. while the import of Indian manufactures into England was discouraged by many duties ranging up to 400 per cent. on their value." \*

This unfortunate revolution in the course of the foreign trade of India was disastrous to her industries. The people were driven from their handicrafts to the plough, and agriculture tended to become the sole support of an increasing population. The unsatisfactory economic condition of India to-day, when our exports consist mainly of raw materials and our imports of manufactured goods, may be traced to this revolution. How the position of India as a producer and exporter of cotton piece goods was reversed, may be seen from the following figures relating to the import of Indian cotton goods into England, and the export of English cotton goods into India.

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\* R. O. Dutt: "India Under Early British Rule," page 293.

**Cotton Piece Goods Imported into Great Britain from the East Indies :—**

1814	...	...	...	1,266,608 Pieces.
1821	...	...	...	534,495 „
1828	...	...	...	422,504 „
1834	...	...	...	306,086 „

**British Cotton Manufactures Exported to India.**

1814	...	...	...	818,208 yards.
1821	...	...	...	19,138,726 „
1828	...	...	...	42,822,077 „
1835	...	...	...	51,777,277 „

**97. Features of Foreign Trade.**—While this reverse process was in operation, imports of British cotton goods had to pay a duty of only  $3\frac{1}{2}$  per cent; while the corresponding imports into England were subjected to a duty of 10 per cent.

“ The progress of the trade continued, however, to be comparatively slow, owing to the natural obstructions which remained after the Company had established its rule over much of the Indian continent. During the first half of the nineteenth century roads were non-existent except where they had been constructed for military purposes; off these great routes all traffic was carried over narrow unmettled tracks impossible during the monsoon.” \*

Owing to the defective character of the means of communication in India and the heavy freights which had to be paid on exports abroad, the development of trade was very slow as may be seen from the following statistics:— †

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\* Imperial Gazetteer, Vol. III, page 261.

† Statistical Abstract for British India, Vol. I. Figures for the war period are not given as they represent an abnormal state of things.

Average	1834-5 to 1838-9	Crores of Rs.	Imports.	Exports.
	1839-40 to 1843-4	"	7.32	11.32
"	1844-5 to 1848-9	"	10.45	14.25
"	1849-50 to 1853-4	"	12.21	16.99
"	1854-5 to 1858-9	"	15.85	20.02
"	1859-60 to 1863-4	"	26.85	25.25
"	1864-5 to 1868-9	"	41.06	43.17
"	1869-70 to 1873-4	"	49.31	57.66
"	1874-5 to 1878-9	"	41.30	57.84
"	1879-80 to 1883-4	"	48.22	63.13
"	1884-5 to 1888-9	"	61.81	80.41
"	1889-90 to 1893-4	"	75.13	90.28
"	1894-5 to 1898-9	"	88.70	108.67
"	1899-1900-1903-4	"	88.56	113.93
	1904-05	"	110.69	135.59
	1905-06	"	143.92	174.26
	1906-07	"	143.76	177.30
	1907-08	"	161.87	182.74
	1908-09	"	178.93	182.93
	1909-10	"	151.53	159.46
	1910-11	"	160.17	194.36
	1911-12	"	173.47	217.08
	1912-13	"	197.52	238.36
	1913-14	"	228.46	256.85
		"	234.74	256.09

The characteristic features of this development of trade which arrest attention, are (1) that the old staples of export and import have entirely\* been replaced by others. The rare and valuable products of India, manufactures as well as raw materials, which were in demand in foreign countries, have now given place to such raw materials and food grains as are required in those countries for purposes of manufacture.\* The imports consist mainly

\* The exports of textiles, sugar, coffee, indigo, shawls, silk &c., have fallen off and those of raw cotton, jute, oil seeds and tea have increased. This increase is largely taken by foreign countries. Thus between 1875-76 and 1913-14, the exports to the United Kingdom of silk goods fell from Rs. 12½ lakhs to Rs. 1½ lakhs, of sugar from 17½ lakhs to 4½ lakhs, of indigo from 1½ crores to 6 lakhs, of shawls from 8 lakhs to 12 thousand, of raw cotton from 7½ crores to 2½ crores while the exports of tea increased from 2 crores to 10½ crores, of grain and pulses from 3½ crores to 12 crores and of raw jute from 2½ crore to 11½ crores. The imports from the United Kingdom during the same period, increased in the case of cotton goods from Rs. 18½ to 59½ crores, of hardware and cutlery from 46½ lakhs to 2½ crores and of soap from 2½ lakhs to 68½ lakhs.



of manufactured goods which have displaced articles turned out in this country. (2) The annual excess of exports over imports has steadily increased so that the balance of trade is normally in favour of India. Bulk of this excess represents the 'Home Charges' which this country has to pay annually in England, the profits of European merchants and firms and the savings of European officials remitted to England. (3) The balance of the excess is received in India in the form of gold and silver. (4) The net imports of the precious metals, though they appear to be absolutely large, are not considerable in view of the large population of this country. (5) These imports of the precious metals also point unmistakably to the economic backwardness of the people and their low standard of living.

**95. Industrial Revolution.**—The change in India from a position in which there was a healthy co-ordination of the agricultural and non-agricultural industries to a condition in which the country has become a big market for the sale of Western, (now Japanese also,) manufactures and a field for the production of raw materials to be manipulated in foreign factories and mills, is a case of retrogression which is responsible for the decadence and poverty of the people. The position of dependence and helplessness was accentuated by the extension of railways.

"The great Indian Dependency of England had, during this century, come to supply the place of the old colonies. This Dependency has come to be regarded as a Plantation, growing raw produce to be shipped by British Agents in British ships, to be worked into fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere. The development of steam-power and mechanical skill, joined with increased facilities of communication, have lent strength to this tendency of the times, and as one result of the change, the gradual ruralization of

this great dependency, and the rapid decadence of native manufacture and trade, become distinctly marked. Even now the danger is not over.”\*

From the point of view of pure economic theory, international, like internal exchange, is obviously beneficial. International exchange is only an extension of the principle of exchange between individuals, districts and provinces of the same country. We now know that :

“The law of comparative costs or of reciprocal demand is the explanation of all exchange, and that non-competing industrial groups are found in internal industry as well. Trade takes place between nations as between individuals, because of relative, not of absolute advantages. One country A, may produce a certain class of commodities at a lower cost than B and nevertheless find it profitable to import them, because A can produce other commodities still more cheaply than B. It will be advantageous for A to export the second class of commodities and to receive pay for them by importing the first.” †

**99. Theory of Exchange.**—The whole theory of international exchange, is based on the reciprocal advantage exchange confers on nations trading with each other. A division of labour thus arises among nations which begin to specialise in certain industries.

“Each country by specialising in those commodities for the production of which it has the greatest relative advantages, obtains a bigger return for its expenditure of labour and capital than it would have done if it had not specialised but had devoted part of its efforts to producing the commodities for which it was relatively less well fitted. The total product of the two countries together will be greater than if each had produced all the commodities without specialising.” §

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\* Ranade : *Essays on Indian Economics*.

† Saligman.

§ Henry Clay.

This doctrine is, however, subject to important limitations in its application to actual conditions. The question will be dealt with at length in the next chapter. It is sufficient here to point out that free international exchange may, under certain circumstances, lead to economic development that is undesirable from more than one point of view. In the first place,

"The so-called system of the territorial division of labour by which the orthodox economists assign to the backward torrid zone regions of Asia the duty of producing raw materials and claim for the advanced European temperate zone countries the work of transport and manufactures, as a division of labour in production which is fraught with the highest advantages to all and is almost a providential dispensation, against which it would be foolish to rebel," \*

is not such an inevitable necessity or a beneficent arrangement.

Secondly, the economic readjustment which follows such an international division of labour does not stand upon the same footing as the changing and changed tendencies of exchange between individuals, classes and communities within the same political unit. Thirdly, the ruin of a nation's industries caused by free international exchange may be an exorbitant price to pay for the advantage of obtaining foreign commodities cheap. The loss in productive power may be much greater than the gain represented by cheapness of foreign goods secured in exchange for home produce.

**100 Effects of the Revolution.**—If the advantage of exchange lies in the surplus satisfaction which the parties to the transaction obtain, we must make sure that there is such a balance of benefit in a nation's trade with foreign countries.

"We are often told that one of the advantages of the expansion of our import trade is that we get our

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\* *Reynolds: Essays on Indian Economics.*

supply of manufactured articles much cheaper and better than we can have ourselves with our present means and appliances. This is true enough and is no doubt our gain as *consumers* but what a price are we paying for this gain, as *producers* and *labourers*? Our home manufactures are almost now gone down and this collapse means to us much more than is commonly supposed. (1stly) It means to us the disruption of our industrial organization and a change from a many-sided system to one resting on the basis of a single industry; (2ndly) it means to us the transfer, enforced, compulsory transfer of one half our industrial population from fields of *skilled* labour to fields of *unskilled* labour, involving as its necessary consequence a distinct deterioration in their standard of life and comfort; (3rdly) it means to us a fearful falling off in the condition and resources of the middle classes, who are the backbone of every fairly progressive community; (4thly) it means to us a dangerous contraction of the total national provision for a growing population: changes all of a grave and wide-reaching character, amounting to a most disastrous economic revolution highly detrimental to the moral, social and intellectual well-being of the entire nation."\*

There has been such a strong revulsion in the mind of economic students against the rigidity of the theory of international exchange referred to above, that even in England, the strong-hold of orthodox views on this question, many conversions have taken place lately to the other side which emphasises the view of national, racial and imperial considerations so often ignored by abstract reasoners. A writer observes :—" And the practical conclusion of it all is, ( and it might be inscribed as a *maxim* over a nation's ports in letters of gold ), that in the game of commerce which is being played between nation and nation :—Never sacrifice an instrument of production to a foreign nation for the sake of a merely cheaper product

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\* G. V. Joshi's *Writings and Speeches*, page 651.

of the same kind of instrument but better which they possess but which you do not; but do as you do at home and sacrifice it only to the acquirement of the *superior instrument of production itself*, which cheapened that product—if you can get it." †

**101. Growth of Trade.**—In the industrial revolution which occurred at the beginning of the last century in India, the indigenous producers lost their instruments.

"The extraordinary rapidity with which the construction of railways in India was achieved, produced an economic revolution in that country which like all revolutions, was not unaccompanied by suffering. The obligation to save life in times of drought and the necessity of lines of strategic utility (for it was the mutiny which gave the first real incentive to construction) have been the cause of that rapidity; and it has had for effect the destruction of the native industries and the concentration of labour on that very employment to which droughts are the most dangerous. Had strategic or economic considerations allowed the change to be more gradual, it is conceivable that greater powers of resistance might have been shown by the native industries, that the lessons of the West might have been taught before destruction was inevitable, so that labour might have drifted to other occupations as well as to agriculture." \*

The foreign trade of India reached a record figure in 1913-14, and led the Director of Statistics to remark :—

"In this connection one is bound to conclude that when the economic history of the period comes to be written, the striking characteristics will be not only the rise of prices and its effect on the various classes of the community and the country as a whole, and the success of the co-operative credit movement, but the great development of trade, and especially in the year under report, which shows India to be as regards trade a land of undefined dimensions." ‡

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† John Beattie Crozier : *The Wheel of Wealth*.

\* Loveday : *Indian Famines*.

‡ *Review of the Trade of India, 1913-14*.

# GROWTH OF TRADE

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We give below a few figures relating to trade for the years 1904-05 and 1913-14, and the comparison will be found most instructive :— \*

	1904-05 Rs. (lakhs).	1913-14 Rs. (lakhs).
Total Foreign Seaborne trade (merchandise)	262,12	440,35
Exports including re-exports ...	157,72	249,04
Imports ...	104,41	191,31
Net imports of treasure ...	22,97	36,36
Net imports of gold ...	9,70	23,23
Total inland trade (merchandise) ...	552,36	870,30
„ Coasting trade (merchandise) ...	76,53	118,72
„ Frontier trade (merchandise) ...	13,19	19,25
Gross railway earnings ...	39,67	62,56
Railroad mileage: miles ...	27,727	34,699
Total area (1,000 acres) ...	335,974	618,927
Cultivated area „ ...	207,721	254,163
Wheat raised (1,000 tons) ...	7,583	8,437
Rice „ „ ...	22,423	28,167
Cotton (1,000 bales) ...	3,791	5,201
Jute „ „ ...	7,400	8,75
Coal (1,000 tons) ...	8,217	16,308
Shipping: tonnage ...	13,881	17,386
Customs revenue (Rs. lakhs) ...	6,20	10,64
Paper Currency (gross circulation) ...	39,18	66,12
Population, last census (1911) ...	..	315,083,772
„ preceding census (1901) ...	..	294,392,433

\* Statistics relating to the years of the war period are not given as they represent an abnormal state of things, and the last year of the pre-war period is taken for comparison with 1904-05.

The share of trade per head of population in India is extremely small as compared with that of other countries, and is Rs. 13-3½ against Rs. 24-10 for Russia, Rs. 39 for Japan, Rs. 232 for France and Rs. 386 for the United Kingdom. The increase in the value of the trade shown in the above table, is largely due to the enhanced prices of many of the staple products exported. The exports of food grains are almost negligible being, 4 per cent. of total production; but the percentage of exports is very high in the case of cotton, jute, tea and indigo, half the quantity produced being exported. The following table gives the percentage of exports of certain principal crops to total production :—

**Percentage of Exports to production.**  
**The quinquennium ending in 1913-14.**

Rice...	...	...	9	Sesamum	...	...	25
Wheat	...	...	15	Sugar	...	...	5
Cotton (raw)	...	...	55	Indigo	...	...	39
Rape and Mustard	...	...	23	Groundnuts	...	...	38
Linseed	...	...	77	Jute (raw)	...	...	50

**102. Chief Features.**—It is a remarkable feature of India's foreign trade that the bulk of the imports consist of manufactured articles and half the exports of raw materials; and this characteristic to which we have referred before, as a disagreeable indication of the ruralisation of India, distinguishes even the latest trade statistics. When after the outbreak of the war, the capture-the-enemy-trade cry was heard on all sides, it was believed that India would be able to fill in the gaps left by the cessation of imports from enemy countries with similar products of home manufacture. But little success could be achieved in this matter; and the reason why India failed when Japan could jump\* with a bound to occupy

\* The pre-war average share of Japan in our imports was 2·5 per cent.; it increased to 5·7 and to 8·9 per cent. in 1915-16 and in 1916-17 respectively.

“ Since the out-break of war imports from Japan have increased by 266 per cent. as compared with the pre-war quinquennial average and the exports by 17 per

our markets, was that this country was ill-equipped with the essentials of industrial progress and had to look on helplessly.†

The grouping of articles of export and import in the trade statistics, is not very happy in view of an inquiry into the form and character of the articles exported and imported. Taking the classification as it is, however, we notice the following relative shares of the four different categories of articles :—

		Exports (1913-14)		Relative share of	
		Rs. (lakhs)		each class.	
1.	Food, Drink and Tobacco	...	64,77	...	26.5
2.	Raw materials	...	122,46	...	50.1
3.	Articles manufactured	...	54,59	...	22.4
4.	Miscellaneous	...	2,41	...	.1
Total		...	244,23	...	100
		Imports (1913-14)		Relative share of	
		Rs. (lakhs)		each class.	
1.	Food, Drink and Tobacco	...	24,66	...	13.4
2.	Raw materials etc.	...	10,56	...	5.8
3.	Articles manufactured	...	145,16	...	79.8
4.	Miscellaneous	...	2,87	...	1.6
Total		...	183,25	...	100

That about 80 per cent. of the total imports and half of the total exports of merchandise should be manufactured articles, is a positive proof that Indian people lack the enterprise, the capital and the skill that are required to turn the raw materials into finished products. This re-

cent. The chief article of import in 1916-17 was piece goods which were valued at Rs. 2,43 lakhs as against Rs. 6 lakhs, the pre-war quinquennial average. The next important articles were silk goods, hosiery, watches, glass and cotton yarn. As compared with the pre-war year 1913-14, glassware increased by Rs. 74 lakhs, watches by 52 lakhs, hosiery and hardware by Rs. 44 lakhs each, sugar by nearly Rs. 41 lakhs and cotton yarn by Rs. 39 lakhs."—Review of the Trade of India, 1916-17.

† The Munitions Board is reported to have done a good deal in manufacturing locally articles which used to be imported and to have thus demonstrated the industrial possibilities of India. It is to be seen whether this experience leads to any substantial and permanent results after the close of the War.



presents so much loss of productive power, and dependence on a single industry which is subject to the operation of the law of diminishing returns. The expanding imports of manufactured goods are taken as a welcome indication of the steadily growing purchasing power of the people and therefore of material prosperity. It is, however, forgotten that they also mean the displacement of the indigenous industries by foreign manufactures.

Increasing exports are not always a sign of growing prosperity. In the case of India the expanding exports of raw materials represent the payments of various kinds that have to be made abroad. They consist of the Home Charges, payment of interest and remittance of profits by foreign merchants and manufacturers working in this country. Little of the foreign trade of the country is in the hands of Indians and the gains of European shippers, planters, miners, bankers, millowners &c., sent abroad take the form of the exports for which there is no return, unless a portion of these comes back as capital to be invested in industrial and commercial enterprise. India's foreign trade will be decidedly profitable to her people if a large part of the raw materials were worked by them in the country and the profits of industry and trade remained in their hands.

**103. Absorption of Gold.**—These are considerations which ought not be ignored in drawing conclusions from export and import statistics of India. The country must certainly import articles which it cannot produce or produce cheaply, and export indigenous products for which there is a demand in foreign markets. Indian staples like cotton, jute, tea, oilseeds and wheat command high prices abroad, and we can buy with these exports a larger variety and quantity of foreign goods, conducive to the progress and comfort of the people. Making allowance for the increased prices of the imported articles which are purchased with the exports of steadily growing

value and for the fact that these profits are partly absorbed by merchants, shippers, bankers and other middlemen, it must be admitted that the cultivator who grows the commercial crops has, during the last few years, been able to make some unexpected gain, though his cost of production and of living has gone up all round.

The normal excess of exports over imports is paid to India by the Secretary of State's drawings, which, however, really mean a remittance from India to London, and the imports of the precious metals; and large quantities of gold have thus been recently absorbed in this country. "The absorption of gold in India rose from Rs. 7½ crores in 1890-91 to Rs. 12 crores in 1903-04, to Rs. 21 crores in 1907-08, to Rs. 25½ crores in 1911-12, in 1912-13 to Rs. 31½ crores and in 1913-14 to Rs. 34½ crores." Looking to the large population of the country, its illiteracy and economic backwardness, its lack of opportunities for industrial progress and its poverty, this absorption of gold is not to be wondered at. Though it is barely one rupee per head of the population, it must be admitted that the country will certainly benefit if the gold could be used as capital for the industrial development of the country.

In this connection Mr. Findlay Shirras observes :—

" It would seem that India is hoarding more than formerly, if by hoarding is meant the non-productive use of the yellow metal. It is used chiefly in the form of ornaments, and as is well-known, most of the gold is imported in small bars to meet a demand in the same way as piece goods are imported...This accumulation of the precious metals is far greater than would be necessary to develop the railways, schools, colleges &c., which are required at the present time. If the gold absorbed in each year had been invested in railways at the ordinary rate of 4 per cent., the interest alone would amount to Rs. 13 crores per annum or in the aggregate to over Rs. 142 crores. Had this been

so invested there would have been a great increase in production with a very considerable increase in well-being."<sup>2</sup>

This is true enough. Some of the gold coming into the country is, even under existing conditions, being probably used for productive purposes. But the producers are so scattered and the amounts falling to their lot are so small that the gold imports do not make much impression on the industrial situation. If the Indian exports enable the people to bring more of foreign commodities so as to promote their economic development and well-being, foreign trade must be a blessing, and the expansion of this trade is to be welcomed and fostered. This elementary principle is undeniable. The point, however, is that there will be a greater production of wealth and a larger number of people will benefit if some of the raw materials now exported to foreign countries to be received back in the form of manufactured articles from them, could be utilized in India and gave scope for the development of the talent, skill and enterprise of Indians themselves. Were it not for this feature of the question, there would be no international struggle for the capturing of markets, pushing and dumping of manufactures and a keen struggle for the promotion of national industries.

**104. Effect of Railways.**—Railways and metalled roads have accentuated the economic revolution described above while they have, at the same time, brought about a better distribution of commodities among the various parts of the country. The motives which animated Lord Dalhousie in his enthusiastic advocacy of the promotion of Public Works, were more political and military than social and economic.

"It was Lord Dalhousie's dream to strengthen the domination not only of English rule, but of English trade and commerce in India and the permanent in-

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<sup>2</sup> Review of the Trade of India for 1913-14.

terests of this country were subordinated to this all-engrossing ambition. The contemporaneous rise of the school of Free Trade in England and the great reputation which its apostles enjoyed, furnished the metaphysical groundwork for this essentially selfish and grasping policy. The value of India to the British nation was measured by the quantity of raw material which the resources of Indian agriculture enabled it to export for the feeding and maintenance of the Lancashire manufactories. India was to devote all its energies to raise the raw exports, and canals, railroads and improved communications were to be pushed on at any cost to facilitate the export of raw materials and the import of English manufactures. India's own industrial needs were of comparatively no consequence\* "

Anomalies of railway rates which tend to encourage the exports of raw materials and imports of manufactured goods at the cost of indigenous industries and internal commerce, are a standing grievance.† The situation in India in the matter of her railways and trade is peculiar and a comparison of it with the expanding commerce of self-governing Dominions, for instance, where railways have been constructed with borrowed capital, is misleading.

Besides the difficulty about railway rates, which hampers the growth of industries, there is another feature of Indian commerce that must be noted in this connection. The total value of India's sea-borne foreign trade which reached Rs. 440 crores in 1913-14, has evoked expressions of satisfaction.

"But who handled all this? From loading into the railway trucks to the place of consumption in the case of exports and from the place of manufacture to almost our doors, in the case of imports, we do not

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\* Joshi's Writings and Speeches, pages 674-675.

† Proceedings of the Viceroy's Legislative Council in connection with the management of State railways in India.

deal with it. We buy and sell in our towns and villages and we have nothing practically to do with it beyond our noses."\*

If the charges for financing, freight, insurance and so forth, connected with this large volume of trade, are calculated at 5 per cent., the loss to Indian people will work at Rs. 22 crores a year! This is why the growing foreign trade and the expanding railways of India do not bring in to the people an adequate return, and do not bear comparison with the eminently satisfactory state of things which characterises other countries which are developed by railways.

**105. Means of Communication.**—During the twenty years 1892-1912, the total mileage of railways has more than doubled.†

"Railways have now linked up different parts of the country and have constituted India into, as it were, one market. The deficiency in one part of India now makes itself felt all over the country within a very short space of time and is made good at once, the rise in the price-level being comparatively small. Every village and every district which is connected by rail are no longer self-supporting units. The powerful and ubiquitous agency of organised commerce has taken the place of the former system, the isolated and self-sufficing village." ††

Statistics showing the growth of railway mileage and traffic are given below :—

\* Report of Eighth Indian Industrial Conference, page L.IV.

† The number of miles of all railways open for traffic at the end of 1913-14 was 34,656 as compared with 27,727 in 1904-05, the increase in the decade thus being 25 per cent.

The total number of passengers carried was in round number 458 millions of whom about 411 millions were third class passengers.

The total quantity of goods carried was 82,613,000 tons.

†† K. L. Datta : Report on High Prices.

Year.	No. of Miles open for traffic.	Passengers. No. (1,000).					Goods traffic.	
		1st Class.	2nd Class.	Inter.	3rd Class.	Total.	Quantity tons (1000)	Average rate per ton (pa.)
1853	20	...	...	...	...	...	...	...
1873	5,697	...	...	...	...	...	...	...
1893	14,465	...	...	...	...	...	28,847	...
1898	21,993	611	4,253	5,073	131,512	151,566	35,642	6.00
1903	26,851	594	2,580	7,214	184,292	210,231	47,684	5.64
1908	30,576	748	3,327	10,060	284,571	321,169	62,398	5.09
1913-14	34,656	813	3,460	12,371	410,960	457,718	82,613	4.64

This extension of railways has revolutionised the internal trade of the country. The extension of metalled roads has assisted in this revolution, and owing to the good prices which producers can command, there is a great demand for the construction of feeder lines and of roads to link up the interior with the trunk lines. There were in pre-British times only a few fairly good trunk roads, and it was in the fifties of the last century that a systematic effort was begun for extending these communications. \* The railways themselves created a demand for metalled roads and the Public Works Department and the Local Boards are now charged with the responsibility of maintaining communications.

This improvement in communications has stimulated trade from the interior to the ports and between different

\* "Roads have been difficult to construct and keep in repair. For in the great Plains, which are built up of river-borne soil, there is no road metal at hand, and until the British had constructed railways, it was too difficult and costly to bring stone from a distance. So that the roads were merely beaten tracks across the fields, thick with dust in the dry season and impossible on account of mud in the wet. In the hill districts, heavy gradients and torrential downpours defied the road builder. Even now there are only 54,000 miles of metalled road in the country, that is, less than one mile of good road for each thirty square mile of land":—C. B. Thurston: *Economic Geography of the British Empire*.

places in the interior itself. Many of the railways have diverted the old course of trade, new centres have been formed and the prosperity of old trade centres has declined. In the interior of the country, bullock carts are still indispensable for the transport of goods, though the railways and motor transport have considerably displaced the carts and the pack animals. The old caravans are no longer necessary and exchange has been vastly increased by the reduction of the cost of transport. Railway and maritime freights have steadily gone down and India's foreign trade has thereby expanded with great rapidity.

The Post Office and the Telegraph\* have largely stimulated interenal and foriegn exchange. The rapid development of the Post Office will be seen from the following statistics :—

'Year.	Miles of Mail lines, land and sea.	No. of Post Offices.	No. of Post cards.	Letters.	Parcels.
1890-91	109,232	4,419	101,062	179,678	1,901
1900-01	131,600	12,970	218,351	250,858	2,679
1910-11	157,759	18,813	413,437	413,677	6,861
1913-14	155,806	18,946	455,945	467,071	12,667
N. B.—The figures are in thousands.					

**106. Inland trade:**—Complete and reliable statistics for internal trade are not available. But from those that are compiled, it is estimated that the inland trade is about three times the foreign sea-borne trade.

"If, to the former, are added the trade by rail and river between the internal divisions of provinces, (which is recorded but not taken into account in the Imperial accounts), as also the coasting trade, the total internal trade comes to about three times the

\* The number of inland telegraphic messages increased from 10 3/4 millions in 1909-10 to about 15 millions in 1913-14. The increase in the number of foreign messages was from 12 3/4 lakhs to 16½ lakhs.

foreign sea-borne trade.\* The rail-borne trade, however, it should be remembered, between one station, and another within the same internal division of a province, or within a Native State, is not recorded."

The port towns of Calcutta, Bombay, Karachi and Madras play an important part in the internal trade; and the bulk of the traffic, representing about two-thirds of the total trade, flows directly to and from the chief ports.

"The articles of exports are generally indigenous, and the importance of the provincial trade depends on the production of the staple articles in the respective provinces. Bengal's position in the inland trade is high on account of jute, rice and other food-grains, oil-seeds, coal and tea produced in the province. Bihar and Orissa is important for its enormous production of coal. Tea is the staple product of Assam; Cotton, wheat and seeds of the Bombay Presidency and Sind; cotton and groundnuts in the Madras Presidency, spring and winter crops (e. g., rice, wheat, gram, lin-seed, rape-seed, &c.) in the United Provinces and the Punjab chiefly account for the large movement of these articles to Calcutta, Bombay ports, Madras ports and Karachi."

The coasting trade from one port to another in British India, Native States and Foreign Possessions is of a similar character, and its net value in 1913-14 was Rs. 68.44 crores. The land frontier trade is much smaller

\* "For nearly forty years India has possessed a system of inland trade registration, and in this respect is more fortunate than most countries. The registration of the trade is done mainly from invoices by the audit offices of railways, by inland steamer agencies, and by registration posts at selected river stations. For this purpose the country is divided into seventeen trade blocks, which are further subdivided into minor or internal blocks." The quantity and value of total merchandise imported and exported from Provinces, Native States and chief seaports, by rail and river, were as follows:—

Quantity (in thousands of tons).				Value (in lakhs of Rs.)			
1913-14	...	...	67,502	...	...	...	8,94.06
1914-15	...	...	63,346	...	...	...	7,87.02
1915-16	...	...	64,914	...	...	...	8,95.77
1916-17	(Estimated)		67,625	...	...	...	10,14.38



and was valued in that year at Rs. 21.44 crores. Persia, Afghanistan, Dir, Swat and Bajaur, Central Asia, Nepal, Tibet, Sikkim, Bhutan, Western China, Shan States and Siam, participate in this trade. The imports from these places consist mainly of raw materials such as wool, timber, hides &c., and the exports to them of piece goods, metal manufactures &c.

#### 107. Extinction of Indigenous Shipping :—

"Thus has passed away one of the great national industries of India after a long and brilliant history, covering, as we have seen, a period of more than twenty centuries. It was undoubtedly one of the triumphs of Indian civilization, the chief means by which that civilization asserted itself and influenced other alien civilizations. India now is without this most important organ of national life. There can hardly be conceived a more serious obstacle in the path of her industrial development than this almost complete extinction of her shipping and ship-building."<sup>\*</sup>

In these words does prof. Radhakumud Mookerji deplore the disappearance of one of the great indigenous industries of India. The total extinction of Indian shipping and the entire dependence of this country for transport of its exports and imports upon the mercantile marine of other countries, is a striking feature of the economic revolution which is the subject of the present chapter.

At one time Indian shipping was extensive and the ship-building carried on in Indian ports was a profitable industry. But the old vessels and sailing ships have been displaced by foreign steamers most of which are of very high carrying capacity. And the total freight on the growing foreign trade of the country means a loss of no less than Rs. 30 crores a year, to which must be added the heavy loss to the people on account of the disappear-

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<sup>\*</sup> Radhakumud Mookerji: *History of Indian Navigation and Maritime Activity.*

ance of a valuable industry. An idea of the shipping engaged in the Indian trade may be obtained from the following statistics :—

	No. of vessels.	Tons (1,000)	Average.
1910-11	8,561	14,994	1,751
1911-12	8,868	16,616	1,874
1912-13	8,749	17,484	1,998
1913-14	8,617	17,386	2,018
1914-15	7,960	12,857	1,611
1915-16	8,634	12,152	1,407
1916-17	10,356	11,954	1,150

Since the opening of the Suez Canal, foreign trade has been carried mostly in steamers at the expense of sailing vessels.

"A few sailing vessels still visit Calcutta, but the sailing ships entering other ports are now almost entirely those classed as native craft which, though numerous, contributed in 1913-14 less than one per cent. of the tonnage, and were engaged in trade chiefly with East Africa, Arabia, Persia and Southern Asia. They are slowly but surely disappearing."

The vessels which enter and clear the ports of India for the most part fly the British flag, the tonnage of vessels sailing under that flag representing about 75 per cent. of the whole, of which 2 per cent. is the tonnage of vessels under the British Indian registry.\*

**108. Foreign Shipping and Subsidies:—**"Vessels belonging to foreign countries are obtaining an increasing proportion of the carrying trade, and the Govern-

\* Review of the Trade of India, 1913-14.

In 1913-14 the numbers of vessels under the principal flags were, British and British Indian, 5,454, German 559, Austro-Hungarian 285, Japanese 191, Norwegian 80 and French 60.

While, of course, enemy ships disappeared during the war, there was a large increase in the number of Swedish, Norwegian, Dutch and Japanese vessels that entered and cleared in the foreign trade. Japanese vessels increased from 130, the pre-war average, to 283 in 1915-16 and to 477 in 1916-17.

ments of those countries pay large subsidies for encouraging navigation, ship-building and the extension of steamship routes.' The total amount of subsidies of all kinds paid by the Japanese Government to its steamship companies in 1911 came to more than Rs. 2 crores. With the help of the State, Japanese industries and trade have been making rapid progress, and shipping and ship-building have not been neglected by that progressive nation. The following table shows the nationality of vessels entered and cleared in Indian ports. The figures exclude native craft and vessels \* engaged in the coasting trade :—

Nationality of vessels entered and cleared.

	1911-12	1912-13	1913-14	1914-15	1915-16	1916-17
British ... ..	5,117	5,131	4,827	4,827	5,067	4,836
British Indian ... ..	647	809	503	600	539	782
Japanese ... ..	121	198	191	183	283	479
Norwegian ... ..	134	141	80	158	177	567
Dutch... ..	83	120	131	128	141	213
Italian ... ..	83	90	73	83	81	86
Russian ... ..	45	47	44	33	51	45
Swedish ... ..	8	11	13	22	40	51
French ... ..	58	47	60	35	9	6
American ... ..	...	...	...	...	13	18
German ... ..	472	509	559	178	...	...
Austro-Hungarian...	213	245	285	83	...	...
Other nationalities...	22	23	30	30	38	25
Total ... ..	7,000	7,161	6,920	6,349	6,449	6,035

\* The total entries and clearances in the coasting trade of all vessels with cargoes, excluding native craft, decreased, in 1916-17 to 10,830 vessels with a burden of 15 million tons, from 13,011 vessels with 16 million tons in the preceding year and 12,750 vessels with nearly 29 million tons, the pre-war quinquennial average. In the coasting trade the percentage of British Indian vessels in the total tonnage excluding Native craft has increased from 8 per cent. in the pre-war period to 13 per cent. in 1915-16 and 15 per cent. in 1916-17. British vessels formed more than three-fourths of the total tonnage. The number of native craft employed in the coasting trade was a little more than 150,000.

It may be contended that a large mercantile marine is not indispensable to the greatness or even to the prosperity of a nation, and the contention may be based upon the theory of the division of labour among nations and of specialization. It is beyond all dispute, however that,

"Maritime transport is a lucrative industry, and that a country which, like Holland in former times and England to-day, transports the goods of all other countries, will find profit in doing so; while the country which has to apply to other countries to transport its own products must evidently pay the price of it. Thus France, who transports only a small proportion of her exports, has to pay over £12,000,000 annually to foreign ship-owners; while England who transports two-thirds of the tonnage of the whole world, and who besides builds ships for all nations, gains by this two-fold commerce over £80,000,000 per annum."†

Gide, who describes what strenuous efforts\* the French Government has been making to promote the growth of French shipping, anticipates the Free Trade argument 'that it may be much more advantageous for a country to have its goods transported cheaply by other countries better equipped for the purpose than to do it itself', and asks in reply 'whether it would not be good for a country as favourably situated as the others to do it itself.'

With a growing foreign trade India is nowhere in the matter of shipping and ship-building when compared to other countries. Here is an important avenue of wealth-creation for the Indian people. If India can transport her imports and exports in her own steamers, she will save Rs. 30 crores a year in freights‡ and will give employment

† Gide: Political Economy.

\* These efforts have apparently proved, according to Gide's showing, wasteful as the nation has hardly received in return even a portion of the value spent in subsidies to ship-owners and ship-builders.

‡ The freight per ton to London for Indian rice and wheat, which was about 11 s. in 1896, 15 s. in 1906 and £1 4 s. in 1914, rose to £4 in 1915 and to £6 8 s. in 1916!

to thousands of workmen of all grades. It is anomalous that India should be entirely dependent on other countries in a matter like this when the traditions of the people ensure the success of indigenous shipping and the requirements of economic progress demand development in that direction.

**109. Summary.**—We have attempted to explain the condition of Indian trade, seaborne and inland, in this chapter which we have headed 'Economic Revolution', and it is hoped the reader has realized how the revolution came about. From the dawn of history down to the eighteenth century, India occupied a pre-eminent position in the world as a great industrial and commercial country, whose wealth attracted to its shores merchants from all quarters of the globe. Indian mariners ventured to distant seas and the products of the Indian soil and of Indian workmanship found a market in far-off lands.

The fame of Indian wealth led European nations to compete with one another for securing a monopoly of trade with this country, and since the establishment of British supremacy in India, her foreign trade has steadily increased. The means of communication in the country were, however, very defective and merchants could not penetrate the interior. But with the advent of railways, the situation underwent an important change. The continent was traversed by trunk lines which connected the ports with the interior, and the market for Indian produce steadily expanded in foreign countries, as India provided a widening market for the manufactures imported from abroad.

The influx of large quantities of cheap fabrics manufactured in factories run with steam-power, steadily displaced from the Indian market the products of indigenous industries, and India tended to become more and more a predominantly agricultural country exporting raw

materials and taking in return for them finished goods. Improvement of communications has lowered the cost of transport and the Indian cultivator has been brought into contact with the western consumer. Foreign demand for India's raw materials has enhanced their value and to that extent the purchasing power of the Indian rayat has increased. This must, however, be regarded as an incidental gain, not sufficiently large to compensate for the loss of productive power which the decline of Indian industries has entailed. The economic revolution has thus proved disastrous to India and a counter-revolution rehabilitating India's industrial position is urgently needed.

The extension of metalled roads and railways has revolutionised the old system of exchange in the country itself as that with foreign countries. But the policy of railway construction was not pursued with a view to the encouragement of indigenous industries, and has only resulted in their decay. The foreign trade of India, which is going up by leaps and bounds, is also not in the hands of the Indian people and the huge profits made out of it, do not enrich the country. The shipping employed in the transportation of exports and imports, is not Indian, and the financial organization is not in Indian hands; and thus crores of rupees which would have otherwise remained in India and increased the supply of indigenous capital, are lost to the country. .

On the orthodox theory of international exchange, this position is an illustration of an international division of labour and of specialization. But we cannot view the situation with such complaisance. The rustication of India is a great danger and her people cannot be satisfied with a mere theory when other nations have pushed their commerce and industries with the direct and indirect assistance of the State at the expense of India. The doctrine of international exchange is correct, but conditions in India are abnormal and, as a result, her

people are not calculated to benefit by foreign trade to the extent they should, under existing circumstances. India must, therefore, manufacture her raw materials more and more, and her people must control her trade, industries, shipping and financing. This is the counter-revolution to which we look forward, and the energies of the people and the State must be bent towards the attainment of that goal.

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## Chapter IX.

### COMMERCIAL POLICY.

#### REFERENCES.

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**110. Freedom of Trade.**—The account given in the last chapter of the economic revolution which has taken place in India and has reduced the people to the state of producers of raw materials and consumers of foreign manufactured imports, leads naturally to a discussion of the question whether it is desirable that trade should be left to take its own course or it should be so regulated as to move in certain channels with a view to its conferring upon the nation specific economic benefits. As we have shown in the last chapter, the theory of international trade extends the idea of the simple and mutually beneficial exchange between individuals, to the commerce between communities and countries, and on that theory, nothing can be more detrimental to humanity than any restrictions upon free intercourse between nations.

This theory took a long time to develop and to be put in practice. Commerce with strangers was, for centuries, looked upon as a bargain in which one of the two parties derived benefit, and foreign trade was nothing but the exploitation of foreign countries for the ad-



vantage of one's own nation. The Physiocrats believed that foreign trade, like domestic, produced no real wealth and if one of the parties to the bargain gained, it was at the expense of the other. They, however, condemned the restriction of foreign trade on the ground that liberty and free competition alone made plenty possible.

**III. Mercantilism.**—The Physiocratic doctrine represented the reaction which took place in France against Mercantilism that held the European field for nearly three hundred years. Adam Smith, following and improving upon the Physiocrats, led this movement in England, and the policy of commercial restriction became discredited there till in 1845 the last shackles on international exchange were thrown off and the flag of free trade was planted on the citadel of British mercantilism. It was at one time the fashion to pass wholesale condemnation upon the thought and policy of Mercantilists but they have recently been better appreciated.

Mercantilist tendencies which prevailed in Europe in the sixteenth, seventeenth and eighteenth centuries, are thus summarised :—

"(1) Towards over-estimating the importance of possessing a large amount of the precious metals; (2) towards an undue exaltation (a) of foreign trade over domestic, and (b) of the industry which works up materials over that which provides them; (3) towards attaching too high a value to a dense population as an element of national strength; and (4) towards invoking the action of the state in furthering artificially the attainment of the several ends thus proposed as desirable."\*

In spite of the obvious errors and exaggerations of Mercantilism, the circumstances of the time, it is now conceded, necessitated its adoption and even rendered it beneficial. Even Adam Smith justified certain exceptions

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\* Ingram: *History of Political Economy*.

to his general doctrine of liberty and approved of the Navigation Act on the ground of defence being more important to a nation than opulence. The theory of commercial freedom was perfected by Adam Smith's followers, and in the hands of Ricardo and Mill, it assumed a rigidity which in its turn, provoked a reaction. By the middle of the nineteenth century, the Free Trade theory of the Classical School had won a complete triumph in Europe.

"Freedom of international trade was accepted as a sacred doctrine by the economists of every country. In Germany, as in England, in France as in Russia, there was complete unanimity among scientific authorities. The socialists at first neglected this topic, and when they did mention it, it was to express their complete approval of the orthodox view."<sup>†</sup>

**112. Reaction.**—But the sense of triumph felt by the advocates of free trade was rudely disturbed by the appearance of List's system of National Political Economy. The political and economic condition of Germany favoured the success of his book and of the new doctrines it preached, and the publication of List's work was as great a land-mark in the development of economic thought as the appearance of the *Wealth of Nations* had been two generations before. List's work was characterised by originality, and he was a pioneer in the field of developing national Political Economy. He introduced two ideas that were new to current theory namely, 'the idea of nationality as contrasted with that of cosmopolitanism, and the idea of productive power as contrasted with that of exchange values.'

High hopes had been entertained about the spread and acceptance of the free trade doctrine, and it was believed that a new era of universal peace and amity had dawned. But this dream was shattered by the awakening

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<sup>†</sup> *Wilde and List: A History of Economic Doctrines.*

of national consciousness in countries which were economically backward and by the growing desire among them for many-sided national development. List maintained that regulation of trade and industry was necessary for the systematic development of a nation's resources and of its latent productive capacity, which may be hampered by foreign competition.

"The American economist, Carey, directed his attack, like List, against the industrial pre-eminence of England and substituted for the ideal of international division of labour the ideal of independent nationality, each nation devoting itself to all branches of economic activity, and thus evolving its own individuality."

The wave of reaction which was thus ushered in spread all over the world, and there is not a single country in the world to-day, excepting England, which has not discarded the absolute doctrines of the classical school of Political Economy. And even in England the movement against an attitude of indifference towards commercial and industrial organization, has gathered force and the experience of the greatest war known to history, has necessitated a revision of national economic ideas and policy.

**113. Colonial Policy.**—European nations, in the grip of Protection, endeavoured to stimulate manufactured exports and to discourage imports from foreign countries, except raw materials and the precious metals. They exercised a rigid control over the trade of their colonies in the West and the East and manipulated it in such a way as to benefit the mother country at the expense of their economic development. Spain monopolised the trade with her colonies in the new world and tried to prohibit other countries from participating in it. The wars of England with Spain, Holland and France during the seventeenth and eighteenth centuries were colonial and

commercial wars, and the jealousies which have marred the friendly relations of European powers with one another, during recent years, have been also commercial.

The settlements, protectorates and spheres of influence of European powers in Asia, Africa and America, which are inhabited by backward races are fields of economic exploitation, and attempts are made to keep them as preserves for the trade and industries of the mother country. But colonies where white populations have settled, can no longer be treated as plantations used to be in olden times, and the American War of Independence taught a lesson which has been taken to heart. The tendency now is to draw together countries inhabited by people of the same race and bind them by ties of preferential tariffs. Large aggregates thus form customs unions and they trade freely among themselves, only penalising the trade of foreign countries.

While tariff wars are, therefore, waged with foreign and rival countries, concessions are given by friendly nations to one another. The tariff reform movement in England has thus two aspects: it is intended to protect British industries against the encroachments of foreign nations; and by it the Dominions are to be linked closely to the mother country by a scheme of preferential trade within the Empire. Mr. Joseph Chamberlain initiated the movement soon after the Boer war, and though, owing to the continued prosperity of England, in spite of or as a result of her free trade policy, it was discredited for a time, the world war added tremendous weight to the demand for Protection and Imperial consolidation.

This essence of British Imperialism and Tariff Reform found clear expression in the speeches of Mr. Chamberlain and the writings of the Tariff Reform League. In March 1907, the London Chamber of Commerce passed the following resolution:—

"This meeting of the London Chamber of Commerce is of opinion that the present fiscal system is no longer suited to the needs of the country, and that it should be altered in such a manner as will enable us, first, to promote the commercial union of the Empire on a preferential basis: and second, to raise a proportion of our revenue from the imports of foreign manufactures, which will tend to safeguard our industries from the unfair competition of foreign countries."\*

The case for British Tariff Reform and preferential trade within the Empire, stands or falls with the general theory of Protection and its applicability to the peculiar conditions of England and the other parts of the Empire. Round no subject has such bitter controversy raged as round that of the comparative merits of Free Trade and Protection. Let it be noted here that Protection as commonly understood and defined, is a systematic attempt to develop the industries of a nation by the imposition of discriminating duties on manufactured goods imported from other countries. Import and export duties are the usual means employed to protect and promote industries and to retaliate upon foreign countries for their policy of restriction. Those who are opposed to Protection, insist upon the absolute freedom of trade as being essential for the development of a nation's resources and regard every interference of the State with the freedom of competition as detrimental to the best interests of the community. Protection has reference, therefore, not only to restrictive import and export duties but also to other measures taken by the State such as bounties and subsidies, for the protection and encouragement of national industry and trade.

The Protectionist's potent weapon, however, is the import duty with which he fights with the foreign manu-

\* See the Author's *Indian Industrial and Economic Problems*, Chapters I and II.

facturer and seeks to keep out his commodities in order to give a fair field to the indigenous producer. This policy is a legacy of the times of the Mercantilist regime, and the spirit of modern Protectionism is the same though the form of the protection given and the grounds on which it is given, may have slightly changed. Advocates of Protection also seek to reconcile their theory to the general development of economic doctrines and thus to defend themselves from the criticism which is regarded as justified against Mercantilism.

**114. The Controversy.**—Opinion on this question of choice between the *laissez faire* doctrine and benevolent State intervention for the protection of national industries, ranges over a wide area. Some pin their faith to the natural order and the beneficence of free competition; others, while accepting this doctrine in general, would relax its rigidity under certain exceptional conditions; and several maintain that under a system of natural liberty, a nation's prosperity is endangered and therefore State regulation of industry and trade are absolutely essential. While on the subject of international trade, we have shown that in theory exchange of commodities between nations, as between individuals, is advantageous to the parties concerned, but that in applying this theory, certain peculiar circumstances have to be taken into account. As a practical measure, therefore, protection will not be a panacea for all economic ills as free trade will not prove uniformly beneficial.

Economists have taken pains to expose the common fallacies underlying Protectionism, and some of the absurdities of that position, though not obvious, are not difficult to appreciate. The faith of the free trader in his favourite doctrine is also touching, and it is necessary to find out what truth there is in the contention of the two sides. What commercial policy it is desirable to pursue in India, will best be decided in the light of this discussion. The

Protectionist is wrong, it is contended, in thinking that international trade is a necessary evil and that he can restrict imports without hampering the course of exports. It is by a division of labour and specialisation among nations that the production of wealth can be conducted under the most economical conditions to the benefit of humanity. Competition gives stimulus to production and enables the best that is in nations to come out. Protection levies a tribute on the whole community for the benefit of a section of it and the artificial fostering of industries is wasteful. It does not matter which industries flourish in a country so long as it can exchange its products for those of other nations. Protection dulls the edge of industry, creates jealousies among nations and disturbs the peace of the world.

Protection can not certainly work wonders and it must work within certain limits of general economic advantages.

"On the other hand, the free traders fail to make allowance for an important element in the problem. The essence of free-trade is cosmopolitanism; the essence of protection is nationalism. Free trade holds up to our contemplation the ultimate economic ideal, but fails adequately to reckon with actual forces. The universal republic is far in the distance, and the separate nations still have an important function to subserve in developing their own individuality and thus contributing distinctive elements to the common whole. Legitimate competition pre-supposes, as we have seen, a relative equality of conditions; as long as the growing nations of the world are in a state of economic inequality, we must expect and not entirely disapprove the effort on the part of each to attain equality by hastening its own development. Ultimately, no doubt, patriotism will be as much of an evil as particularism has now become; but in the present stage of human progress patriotism is a virtue. Free traders often

overlook the sound kernel in what seems to be the apple of discord."\*

This is a sound conclusion which an unbiased and practical consideration of the arguments on the two sides, leads one to accept. If and to what extent a nation should resort to protectionism, must be decided on a review of several factors pertaining to the political, social and economic conditions of the nation. Protection is unsuited to countries the bulk of whose exports are of an industrial character.

"But when the economic resources of a country are not yet fully developed, it may none the less be desirable to accelerate the pace in the interests of its own immediate national progress, with the idea that the contributions of fully mature and economically well-rounded nations to the commonwealth of the globe will in the long run exceed the gain from an uneven and one-sided evolution."\*

Some of the evils which come in the wake of Protection, are patent, and freedom of exchange and of competition must be ensured as far as practicable. But competition may be unfair and the weak party has to be protected by the intervention of the State. Restriction may also become necessary for national defence, and the larger interests of the nation as a whole may require the imposition of restrictions on freedom, and the regulation of exchange. International harmony is a desirable and noble ideal, but no nation can afford to look on unconcernedly while its neighbours are arming and preparing to attack it. If another nation sets up a rival industry and promotes it by means of bounties and subsidies so as to kill your industry ultimately, you have to take measures to protect it. Bolstering up of industries in the face of natural disadvantages, is a wasteful proceeding, but stimulus given by the State by means of import duties,

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\*Seligman.



financial assistance, scientific advice or otherwise, may create conditions that will prove favourable to the revival of old or establishment of new industries.

**115. The Indian View.**—We have briefly described in the last chapter the economic revolution which took place in India in the course of the nineteenth century. England was, at the time the revolution commenced, in the grip of the protectionist and colonial policy. Heavy import duties were levied upon Indian manufactures going into England, and instead of conserving and improving the nascent industries of India, the East India Company looked only to its dividends and political power. When England was protectionist, India suffered from protectionism and when free trade became the fiscal creed of that country, India still continued to suffer owing to unfair competition and neglect of the indigenous industries. Indian people had little voice in the governance of the country and the determination of its policy, fiscal or otherwise. Their interests could not, therefore, be safeguarded, when other interests, notably those of British manufacturers and merchants, came in conflict with them.

To honest free traders it did not matter if one after another Indian industries decayed and the country came to depend entirely upon agriculture. They rejoiced that the foreign trade of India steadily expanded and they pointed to it as a measure of prosperity. Opponents of free trade wanted protection, but not for Indian industries. Indian markets were to be thrown more widely open to British manufactures and closed to foreign goods. India has had no independent fiscal policy consonant with the opinion of the intelligent public.

"Public opinion in India is overwhelmingly protectionist. If she were granted her fiscal freedom there is no doubt that she would use it to erect a high

tariff which from the nature of her trade would be directed chiefly against British goods."\*

This impression formed by Prof. Lees Smith, of Indian feeling, correctly reflects the situation. Being a confirmed believer in the doctrine of free trade, an examination of conditions in India, convinced him of the futility of protection and led him to the conclusion that 'India needs a strong free trade school among her thinkers and administrators.' Among the latter he may find a large number of free traders. But in the peculiar situation in which India stands, he hopes in vain for the establishment of a free trade school in this country among Indian thinkers. The latter appreciate the good points of the free trade position and the drawbacks of protectionism. But in their view the balance of advantage lies in protectionism judiciously applied.

Earlier Indian thinkers were strongly impressed with the advantage of free trade for India, but they found that the Indian fiscal policy was not genuine free trade and that the political and economic condition of India provided a clear case for the adoption of protection, or it came under the exceptions admitted by free traders themselves. Since 1882, the Indian tariff has been a revenue tariff and the  $3\frac{1}{2}$  per cent import duty on cotton piece goods is counterbalanced by a countervailing excise duty on cloth produced in Indian mills. No fiscal measure has evoked a stronger adverse criticism in the press and the Legislative Councils, from Indians and Europeans, than this unjust impost. But the Government of India, even though sympathetic, is helpless and the Secretary of State for India cannot resist the pressure of Lancashire.†

**116. Indian Protectionists.**—Referring to the comment of the *Times of India* on Lord Salisbury's telegram asking the Indian Government to abolish the import

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\* H. B. Lees Smith : India and the Tariff Problem.

† Author's Gokhale and Economic Reforms, pages 34-37.

duties on cotton, that 'the real object was to "nip in the bud" the rising factories in India—the ostensible reason assigned is free-trade,' Dadabhai Naoroji observed :—

"I give credit to the Secretary of State for honesty of purpose, and take the reason itself that is given on this question, viz., free-trade. I like free-trade, but after what I have said to-night you will easily see that free-trade between England and India is a matter like this is something like a race between a starving, exhausting invalid, and a strong man with a horse to ride on. Free-trade between countries which have equal command over their own resources is one thing, but even then the Colonies snapped their fingers at all such talk. But what can India do? Before powerful English interests, India must and does go to the wall."<sup>†</sup>

Mr. Ranade exposed the evils of a *laissez faire* policy pursued in India and showed how State assistance was needed for the economic development of the country. His essay on Indian Political Economy, in which he attempted to apply the most recent economic theories to Indian conditions, has become a classical exposition of the attitude of Indian thinkers on the subject, and his lead has been followed by students in the present generation.

Mr. R. C. Dutt's historical studies and his long experience as an administrator led him to similar conclusions. § Speaking of the Swadeshi movement, he remarked:—

"The Swadeshi movement is one which all nations on earth are seeking to adopt at the present day. Mr. Chamberlain is seeking to adopt it by a system of protection. Mr. Balfour seeks to adopt it by a scheme of retaliation. France, Germany and the United States and all the British Colonies adopt it by building up a wall of prohibitive tariffs. We have

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<sup>†</sup> The Poverty of India.

§ India in the Victorian Age : Chapters on History of Tariffs.

no control over our fiscal legislation; and we adopt the Swadeshi scheme, therefore, by a laudable resolution to use our home manufactures, as far as practicable, in preference to foreign manufactures." \*

Studying the question of the comparative merits of Free Trade and Protection in relation to India, Mr. K. T. Telang came to the following conclusion years ago:—

"The net result of our investigations appears to me to be this. Objections ordinarily urged against a system of Protection to native industry, whatever their applicability in countries more advanced in modern civilization, are void of force in the circumstances of this country. Looking only at the economic aspects of the question, it appears that not merely is protection to native manufactures unobjectionable, it is even desirable in the circumstances of our country." †

Sir Dinsha Wacha believes generally in free trade and is of opinion that "India owes its prosperity to-day entirely to free-trade and nothing else." He truthfully remarks that the exports and imports of India would not have assumed the present proportions if there had not been unrestricted trade. His remarks, however, that Indian exports are surplus products, that 'India is so self-contained that it can produce all it wants and still export this immense quantity of materials' and that India would not have prospered if there had been no free trade between her and England, is not very convincing. Sir Dinsha probably refers here only to the increase in the quantity of trade because he proceeds to observe that India's old industries require to be revived and that 'these and other new industries would necessitate protection during their infancy.' 'I am one of the convinced advocates of Free Trade,' he continues, 'but yet I consider

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\* Speech at the Benares Industrial Conference, 1903.

† Select Writings and Speeches, Vol. I, page 177.

that some protection is required for old industries to be revived or for new industries to be started.\*

Mr. G. V. Joshi, whose writings are full of inspiration and information and sound reasoning, agreed with Mr. Ranade, his teacher and guide, that State assistance and Protection were absolutely needed for the revival of the indigenous industries of India. He regarded the dependence of the people on agriculture as the sole means of subsistence, as the weakest point in India's economic position and pleaded for a co-ordination of agricultural and manufacturing industries with the direct help of the State.

Mr. G. Subramania Iyer held similar views, and they are clearly reflected in the following quotation from his writings:—

"The British nation must be told frankly that the Indian people have no doubt whatever in their own minds, that so long as the present so-called Free Trade and unequal competition continue, India has no hope of a future which will be distinguished by material prosperity." †

The Swadeshi movement, which has found enthusiastic advocates among the best thinkers of the country, is based upon the idea of national economic development and of Protection. If the State does not stimulate industrial progress, the people are prepared to promote it by patronising home industries even at a sacrifice as consumers; and Government has come to recognize the utility and reasonableness of the movement.

Mr. Gokhale learned his lessons on public questions from Mr. Ranade and imbibed his spirit of patient inquiry and close study. In a speech he made at Lucknow in 1907 on the Swadeshi movement, Mr. Gokhale traced the industrial decay of India and the harm which free trade had done to the country, and observed:—

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\* Four Papers on Economics and Statistics.

† Some Economic Aspects of British Rule in India, page 350.

"It was, therefore, to the advantage of England that there should be no export or import duties, as one result of such duties was to add to the cost of the article supplied to foreign countries. But forcing this policy of free-trade upon a country circumstanced as India was, was a wholly different thing and was bound to produce results of a most disastrous character." He proceeded:—

"The State by a judicious system of protection, should then ensure conditions under which new infant industries can grow up. And until the new industries can stand on their own legs, it becomes the duty of the State to have a protection wall around. This is what America--already one of the richest nations in the world, and one which will yet reach the foremost place--has done, and the case is the same with France and Germany."

**117. Policy for India.**—Their economic and historical studies, have strongly impressed Indian thinkers with the beneficent efficacy of the measures which foreign nations have taken during the last two generations to promote their industrial development, and they have been convinced that the reasoning and conclusions of the National School of Political Economy, are applicable to the conditions of India rather than the theories of natural law of the Orthodox School. It is, therefore, futile for outside critics to hope for the rise of a free trade school among the economic students of India. The latter appreciate the free-trade doctrine in the abstract and will be influenced by it only to the extent that they will desire that Protection to be adopted in this country should be of the right kind and the evils coming in its wake should, as far as possible, be avoided.

The subject of Protection has been often discussed in the Supreme Legislative Council, the question having been raised there by resolutions recommending the imposition of protective duties on articles like sugar and the

abolition of the cotton excise duties. The strongest objection to Protection is that it usually fails to produce the results expected of it, and those who propose a specific measure of protection, have to calculate carefully the effects it is likely to have on the economic condition of the different classes of the community. Mr. Gokhale faced this question with a judicious frame of mind and weighed all the considerations that could be urged on both sides before pronouncing his opinion. When the question of the excise duties was raised in the Imperial Legislative Council in March 1911, by the Hon'ble Mr. Dadabhoy, he gave expression to his view in regard to the Free Trade *versus* Protection controversy in very lucid terms. That view reflects and ought to reflect the considered opinion of every careful student of Indian Economics. Gokhale said :—

"Coming to the larger aspect of Free Trade *versus* Protection, I would like briefly to state my position in this matter. I may say at once that by conviction I am not an upholder of Free Trade in all countries and at all times. Free Trade can no more prevail universally at present than any other noble ideal, for instance, the brotherhood of man.....In the same way Free Trade for all countries may be all right in theory, but it will be a long day before we shall have it in practice everywhere. And till that time comes, every country must take care of its economic interests in its own way."

Taking the word 'Protection' in its comprehensive sense, Mr. Gokhale proceeded to distinguish between the right and the wrong kind of protection :—

"The right kind of Protection is that under which the growing industries of a country receive the necessary stimulus and encouragement and support that they require but under which care is taken that no influential combinations, prejudicial to the interests of the general community, come into existence. The

wrong kind of Protection, on the other hand, is that under which powerful influences and combinations of interests receive assistance to the prejudice of the general community, the general tax-payers of the country. And I believe that the right kind of Protection, if available, will do good to India."

The peculiarity of India's position to which we have adverted is that the people have no effective voice in the government of the country and in the shaping of the national policy, and the large industries and the foreign trade of the country are not in the hands of the people. There is no constitutional machinery by which the wishes of the people can be carried out as the Government is not responsible to them. It has been pointed out how other than purely Indian interests carry weight with the Government, and the Secretary of State for India who controls the Government of India, being a member of the British Cabinet, is swayed by the pressure of capitalists and manufacturers in England.

If Protection is, therefore, to be granted to industries, there must be a guarantee that the profits that will accrue, will remain in India and not be carried away by those who have no stake in the country. Under these circumstances, Mr. Gokhale held, on the whole, a policy of Free Trade reasonably applied, was the safest policy for this country. He thought that

"otherwise influential interests, influential combinations, and influential parties in England, who can have ready access to the Secretary of State, to whom we have no such access, will not fail to take the fullest advantage of the situation and this huge engine of protection, which is a vast power, will be employed, not in the interests of the people of India, but in the interests of those parties."

**113. Indian Protectionism.**—The Indian Tariff has long been on practically a free trade basis and this policy



as well as that underlying the imposition of the cotton excise duties, has been dictated by a faith in Free Trade and by the influence of interests whose pressure was irresistible. It is the honest belief of some that free trade was the right policy for India to adopt in view of the undeveloped character of its natural resources, while others have made no secret of their opposition to Protection in India on the ground that it would be detrimental to the interests of English manufacturers.

(1) We hold that in this country, free trade policy would mean only drifting along the changing currents of the world's economic development; and to be at the mercy of the so-called laws of nature and the deliberately self-interested measures of foreign countries, is to court disaster. This policy of drift, so long pursued, has already proved harmful, and in the international struggle for economic progress, this country must arm itself with the necessary weapons.

(2) When we declare for Protection, we must not be understood to advocate an indiscriminate imposition of import duties on all manner of articles. Other countries like France and the United States of America, have had high tariff walls erected to keep out and restrict the import of foreign manufactures. The Indian tariff must be constructed with a view to the position of the various industries in the country, and its effect on the different classes must be carefully calculated.

(3) Import duties do not always tax the pocket of the foreign manufacturers and may only mean an addition to the sacrifice exacted from the consumer. If the State has to make the tax-payers contribute more largely to the public expenditure, import and export duties may prove convenient and productive. They constitute a favourite method of raising revenue, and the free trade conscience ought not to be shocked if such duties are levied for revenue purposes, even if they have a protective tendency.

**119. State's Attitude.**—In view of the extinction of opium revenue, the Finance Member was compelled to impose additional taxation in 1910, and customs duties on certain articles were raised. In that connection, Sir G. Fleetwood Wilson observed in introducing his financial statement :—

"I hope I shall not be charged with framing a Swadeshi budget. In the sense which may be seen indicated on Bryant and May's match boxes ('Support Home Industries') I think Swadeshi is good; and if the outcome of the changes I have laid before the Council result in some encouragement to Indian industries, I for one shall not repent it, but I would emphasise the fact that the enhanced customs duties are attributable solely to the imperative necessity of raising additional revenue."\*

He then went on to point out that even in Free Trade England considerable revenue duties had been imposed for revenue purposes and that

"in countries which depend mainly on agriculture, where the population is poor and there are no large and profitable manufactures, it will be long before you can dispense with customs receipts as a part of the revenue essential for the administration of the country."

Here we notice (i) the Finance Member's anxiety to disown all idea of imposing duties for protective purposes and the apologetic tone he adopts for appearing to frame a Swadeshi budget; (ii) the necessity he feels to enhance customs duties for providing a larger revenue; and (iii) his conviction that in an agricultural and backward country like India, the Government must depend, to a considerable extent, upon customs receipts as a part of its revenue. There are several directions in which more liberal expenditure is urgently needed *e. g.* expansion of education and improvement of sanitation; and more reliance will have to be placed upon this form of indirect

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\* Speech in connection with the Financial Statement for 1910-11.

taxation to provide the funds required. Faith in the free trade doctrine cannot, therefore, be allowed to prevent the Finance Member from imposing import and export duties, though they may have a protectionist tendency.

(4) Protective duties alone will not, however, solve the economic problem. They will assist the indigenous industries to compete with their foreign rivals, provided of course, the latter are discouraged by the duties and retire from the field or restrict their operation in the Indian market. An attempt will have to be simultaneously made to improve the conditions in which the industries work and to bring them up to the level of their rivals. Care must be taken to see that Protection does not entail a sacrifice on the consumers while failing at the same time to make national production more efficient. Protective duties will be one of the ways of ensuring the success of a new undertaking and must not be allowed to dull the edge of enterprise and efficiency. The Indian Protectionist must also ask himself the question if Protection "might not merely mean that the manufacturer who now competes with you from a distance, would transfer his activities to India and compete with you within your own boundaries?"†

That by the spread of education, by a provision for scientific research and by demonstrations, the State can and ought to promote the industries of the nation, has been admitted even by staunch free traders. Experimental factories have been recommended and were started in the Madras Presidency. Demonstrations are being given in agricultural and manufacturing processes. New models of power looms and hand-loom are being introduced. But this work must be done on a larger scale than now, and the problem of the manner in which capital may be provided to industries in the initial stages with sufficient

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† Sir W. Clarke: Speech in the Supreme Legislative Council, March, 1916.

guarantees, must be immediately tackled. Directors of Industries have to undertake this work of economic organization and they must proceed with the same enthusiasm as the Registrars of Co-operative Credit Societies have done.

(5) While the State in India follows the *laissez faire* policy in the matter of trade and industries, it has assumed in this country several functions which, in other countries, are left to private enterprise. As Sir Theodore Morison points out, the State here is, in many respects, more national and socialistic than is usually supposed.

"While the problem of unemployment and the question of checking the abuse of competition are engaging public attention in England, the Government of India has long taken upon itself the study of relieving distress and saving lives in times of scarcity and famine. Railways and canals have always been practically State undertakings. Various tenancy acts and other measures have been passed to safeguard the poor tenants against the exactions of the landlords. An attempt has been made to save the rayats from the exacting clutches of the money lender."†

The Indian State regards itself as a universal landlord; it is the biggest banker in the country and Lord Morley once boasted of the immense business done by the India Office. The same principle has to be extended further, and

"If the State can legitimately undertake from borrowed funds the construction or subeildization of railroads and canals, if it can afford to sell the fee simple of waste-lands at nominal rates to European settlers on the hills, the road is certainly open for a further development of this same industrial effort on new lines."\*

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† See the Author's Indian Industrial and Economic Problems, page 179.

\* Ranade: Essays on Indian Economics

**120. Fiscal Controversies.**—(6) But the free trade conscience of the authorities in England who have to settle these matters, and the pressure of vested interests in that country which they find irresistible, stand in the way of the pursuit of this policy. The demand for fiscal autonomy for India is based upon this anomalous position in which the Secretary of State can override the wishes of the people of this country, strongly backed up by the Government of India and the Provincial Governments, as was done by Lord Morley. Whenever any question relating to fiscal policy or State assistance to industries, comes up before the Indian legislatures, the Government in India cannot take action which it thinks best in the interests of the country, and it has to confess frankly that

“ Their policy is and must be the policy of His Majesty’s Government ”†

The self-governing Dominions enjoy complete freedom in this respect. Their Governments have raised tariff walls against the manufactures of England and they have been allowed to do so. In this Dependency, however, the Government is not allowed to enjoy this necessary freedom to manage its affairs in accordance with its circumstances and needs, and thus the interests of India are subordinated to other interests. This is a long-standing grievance, and none has given expression to it more bitterly than the Government of India itself. The Secretary of State, who is a member of the British Cabinet, is directly responsible to Parliament and is subject to the influences of British party politics. Parliament itself does not take much direct interest in Indian affairs, and ex-officials who are members of either House, are able to shape Indian policy. The latter can effectively thwart his measures of reform if the Secretary of State is independent-minded and progressive, and will strengthen his hands if he is opposed to progress.

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† Sir William Clarke in the Viceroyal Council.

As Mr. Gokhale has said, in the matter of securing this fiscal autonomy which India legitimately claims, 'there is really not much to choose between the two parties in England.' The Liberal party, wedded to free trade, feels that India's salvation lies in the continuance of the existing policy and it says that India would be worse off if Protection were to become the accepted policy of England. India's dependence would be intensified and her industries would become more helpless than now. On the other hand, members of the tariff reform party point to the destruction of the indigenous industries as the evil fruit of free trade, and condemn the cotton excise duties in unsparing language. They, therefore, advise the Indian people to accept their scheme of preferential trade within the Empire, though they cannot favour the idea of allowing India to frame her tariff according to her peculiar conditions and interests. Did India enjoy fiscal autonomy like the self-governing Dominions, her position would be enviable while she was courted in this way by two parties. As a matter of fact, however, whatever policy gets ascendancy in England, has to be the policy of India too, whether it is suited or not to her conditions. But this state of things cannot continue.

The problem of protection and fiscal autonomy for India is mixed up with the Imperial problem of preferential trade and defence. It has invested the latter question with special and immediate interest. Schemes of imperial preference and imperial reconstruction, have been discussed for several years, but their discussion has had only an academic interest. When the late Mr. Joseph Chamberlain started his campaign of tariff reform, the Government of India were sounded as to their views in the matter. The countervailing duties imposed on bounty-fed sugar coming from Germany and Austria-Hungary, in the time of Lord Curzon, had evoked a bitter controversy in England, and that Viceroy had

made, what was regarded as a contemptuous reference to 'the mutterings of the priests at the shrine of free trade. No definite scheme of preferential trade had been placed before the Indian Government; but the latter expressed the view that India wanted a free hand and would not like to be involved in tariff wars.

**121 Imperial Preference.**—The Government of India were of opinion

"That (1) without any such system India already enjoyed a large, probably an exceptionally large, measure of the advantage of the free exchange of imports and exports: (2) that if the matter were regarded exclusively from the economic standpoint, India had something, but not perhaps very much, to offer to the Empire; that she had very little to gain in return; and that she had a great deal to lose or risk; and (3) in a financial aspect, the danger to India of reprisals by foreign nations, even if eventually unsuccessful, was so serious and their results would be so disastrous that India would not be justified in embarking on any new policy of preferential trade unless assured of benefits greater and more certain than any which had so far presented themselves to the Government of India."

Later events, such as the occasional meetings of the Imperial Conference, the discussion of the problems of Imperial defence and trade and particularly the intimate association of the Dominions and of India with England in the war with Germany, put an altogether new complexion on the situation. Not that free traders were convinced that restriction of imports would do good to England or that preferential trade within the Empire would add strength to the economic position of the country. The resolutions passed by the Paris Conference did not meet with their hearty approval and the proposed arrangements about preferential trade within the Empire and

the Allies were declared to be unsound. But the struggle with an unscrupulous enemy, required an efficient organization and concentration of resources, and the voice of controversy was naturally silenced. Many difficult post-war problems also presented themselves for solution and a closer unification of the Empire was found to be imperative.

The enemy, who had prepared himself for the war while the world slept in fancied security, and who violated morality and international law, took the Empire by surprise. And the Empire made up its mind that this should not happen again. One of the guarantees of the future peace of the world was to be the constitutional reconstruction of the Empire and with it the readjustment of the economic and fiscal relations of England and the Dominions. The urgent need of such reconstruction impressed itself so strongly on the minds of people that it became the subject of animated discussion. So long as the struggle continued, attention had to be concentrated, however, on efforts to win the war. But any discussion of the issue of constitutional reconstruction naturally involved the consideration of the fiscal problem also.\*

The general lines on which the tariff question could be decided, were clear. The integral parts of the British Empire must admit the goods of one another on specially favourable terms, if not absolutely free, and all of them must put more or less prohibitive duties on foreign imports, the Allies coming in for favourable treatment and friendly neutrals being treated more favourably than the enemies. This arrangement, like the tariff reform schemes formulated before the outbreak of the war, was calculated to serve two purposes, first, to unite the Em-

\* See Sir Ibrahim Rahimtulla's Note on Constitutional Reform in which he pleads for the grant of fiscal autonomy to India on the ground of the promotion of this country's economic development and the better defence of India and the Empire.



pire more strongly and make it self-supporting and secondly, to promote the industries of Great Britain which suffered from the competition of foreign countries like Germany.

Under such a scheme of Imperial organization, India was, of course, entitled to occupy the same position as the Dominions. The importance of India, arising out of her strategic position, her commerce, her raw materials, her size, her teeming population and her markets, has been recognized by free traders and tariff reformers alike. India's whole-hearted participation in the struggle, the sacrifices made by her people for the cause of the Empire and their readiness to go through thick and thin with their brother citizens of the United Kingdom and the Dominions, gave the Empire a new vision and a new sense of duty towards this country. But among those who thought and wrote about imperial reconstruction, there was hesitation and reluctance to accord to what was only a Dependency, the status and the privileges of the self-governing portions of the Empire. The fiscal organization of the Empire must be based on the principle of mutual concession and reciprocal sacrifices. And India's willingness to bear her responsibility as an equal partner in the Empire could never be doubted. But to treat her as a trusted dependent, must make all the difference.

**122. Indian Government's Attitude.**--We have never believed that India would benefit by consenting to be included in a scheme of Imperial preference such as those adumbrated by tariff reformers and imperialists in England and in this country. India has claimed fiscal autonomy, because her people want freedom to frame their tariffs and protect their industries against foreign competition. Preferential trade, which will not be in consonance with this object, cannot be acceptable. In their despatch of 1903, the Government of India frankly stated:--

"All past experience indicates that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests, and not those of India alone, shall be allowed consideration."

Speaking in the House of Commons in 1908, Lord Curzon reiterated these views. He observed:—

"What has been our experience in the past in India of the manner in which the influence and power of the Secretary of State as the ultimate ruler of India are exercised in the direction of the fiscal policy of India? It is that in fiscal matters the Government of India has to take the views of the Secretary of State whether it agrees with them or not and these views are more likely to be guided and shaped by English than by purely Indian considerations."\*

The economic development of India is bound up with fiscal autonomy for India and fiscal autonomy is bound up, in its turn, with popular control of the Indian Government. These are fundamental factors in this problem of the trade organization of the Empire and to speak of India's participation in a scheme of Imperial Preference without raising her status in the Empire to an equality with the Dominions and giving the people constitutional control, is utterly to misunderstand the whole problem.

So recently as March, 1913, this question was raised, in the Supreme Legislative Council, by Sir Gangadharrao Chitanavis in a resolution in which he recommended the adoption of a system of preferential tariffs with the United Kingdom and the Colonies. In his speech, the mover of the resolution claimed fiscal autonomy for India, but in his view it was outside the sphere of practical politics and, therefore, he pleaded for preferential trade within the Empire as the next best arrangement. What should come first he was willing to postpone and stated that 'a customs union with the Colonies, would gradually

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\* See Lord Fraser's *Lord Curzon and After*, page 347.

secured for us there a better and more dignified position than we now have. Sir Gangadharrao's plea was unconvincing and fell flat on the Council and on the country.\* It only called forth a dissertation on the merits of free trade and protection from the Finance Member, Sir G. F. Wilson. The financial aspect of the question,—the loss of customs revenue that a scheme of free trade within the Empire would involve,—was emphasised in his speech which was non-committal, though its leanings towards free trade were quite apparent.

**123. Fundamental Principles.**—Leaving aside the controversial literature which has appeared on this subject,† we may proceed to point out the fundamental principles which are involved in it. (1) In the first place, in whatever fiscal arrangement is proposed, representatives of the people of India must have an effective voice in the discussion and determination. The self-governing Dominions struggled to obtain this fiscal freedom and partnership of the Empire, and to-day they are acting as the equals of the United Kingdom. In 1859, the Finance Minister of Canada administered a rebuke to the Colonial Secretary when the latter tried to interfere with the fiscal rights of that Colony. He said :—

"Self-government would be utterly annihilated if the views of the Imperial Government were to be preferred to those of the people of Canada. It is, therefore, the duty of the present Government distinctly to affirm the right of the Canadian Legislature to adjust the taxation of the people in the way they deem best—even if it should unfortunately happen to meet with the disapproval of the Imperial Majesty."‡

\* It is curious to notice that the debate roused the enthusiasm of Sir Roper Lethbridge who hastened to write a book on what he chose to call "the Indian Offer of Imperial Preference"!

† See The Colonial Conference; The Cobden Club's Reply to the Preferential proposals; and The Tariff Reform League's pamphlets.

‡ Percy Hurd and Archibald Hurd: *The New Empire Partnership*.

The new partnership concedes to the Colonies a share in the shaping of the destinies of the Empire, which was formerly entirely in the hands of the British Government.

(2) India must be treated on terms of equality with the Dominions in this respect, and the concession of justice must be preceded by the grant of fiscal autonomy. The first without the second is futile. (3) The Government of India, which will thus be endowed with fiscal freedom, must also, as a condition precedent to a participation of this country in an arrangement of preferential trade, be made amenable to the control of the people. These three things are inseparably bound up with one another. When these conditions are satisfied, it will be perfectly fair to expect from India all the sacrifices which imperial responsibility will throw on her shoulders. The main object of Imperial preference is the consolidation of the Empire and the promotion of its material prosperity. Every measure that enriches the component parts enriches the Empire, and no tariff scheme will be acceptable that is calculated to injure the interests of the Dominions or of India.

**124. Difficulty of Solution.**—Imperial consolidation to be attained by preferential trade within the Empire, will, of course, entail reciprocal sacrifices, and the scheme must be such that each constituent part of the Empire will be called upon to make a reasonable contribution. It is doubtful, however, if a policy of protection which preferential trade will impose on England, will, on the whole, be beneficial to her industries and trade, and if a tariff scheme can be devised which will satisfy all parties concerned. It is the ideal of many to make the Empire self-contained so as to enable it to snap its fingers at foreign countries trying to retaliate upon it. The risks run and the dangers overcome in the war with Germany, have taught the value of Imperial consolidation. The adoption by the Empire of imperial preference will,

in a sense, extend the bounds of free trade, and the experience of the war swept away the doubts entertained by many about the wisdom of tariff reform. It is an undisputed principle that the component parts of the Empire must be brought together more closely than now and must participate in the determination of general Imperial policy.

Sentiment and the sense of political necessity will, of course, play an important part in the achievement of Imperial consolidation. The Empire is so vast and produces such a variety of raw materials and manufactured goods, that it may become self-sufficing more easily than any other political organization in the world. But it is this variety and the differences in the Empire regarding economic conditions and constitutional status that make the solution of the problem extremely difficult. The arguments of those who would leave the colonies free to evolve their own destinies and instead of trying to tighten the ties by tariffs and formal Imperial councils, would look to the affection of the Dominions for the mother country, seem to have become out of date. Still it cannot be said that they have lost all their force, and a practical consideration of the question immediately shows the difficulty of finding a satisfactory solution.

Prof. Nicholson wrote:—

"It is easy to say that free trade within the Empire is desirable, and it is to be hoped that in the course of time this ideal will be realised. But this country (England) would not gain if this ideal must be purchased by sacrificing a trade of threefold magnitude with foreign countries, by creating all kinds of local jealousies throughout the Empire, and by interfering with systems of taxation which the people who bear the taxes regard as beneficial, or, at any rate, satisfactory."

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\* Principles of Political Economy, Vol. III.

England's manufacturing prosperity depends mainly on her ability to export to all parts of the world the goods her factories and mines turn out, and to import food and raw materials. A free trade policy is, therefore, eminently suited to her condition, and a change in it will require very strong arguments to enforce it.†

One peculiar feature of India's foreign trade which makes the expected beneficial effect of preferential tariffs extremely problematical, is the predominant position which the Empire already occupies in that behalf. Full 70 per cent of the total imports of merchandise in 1913-14 came from the British Empire, 64 per cent, being the share of the United Kingdom alone. And of the exports, the Empire took 37·8 per cent, the share of the United Kingdom being 23·7 per cent. It is obvious that India takes from foreign countries only what the United Kingdom cannot supply and exports to them what the Empire

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† The difficulty referred to above will be apparent from the manner in which the resolutions of the Paris Conference and the recommendations of the Committee on Commercial and Industrial Policy of which Lord Balfour of Burleigh was chairman, were received. The committee recommended in view of the experience gained during the war that special steps ought to be taken to stimulate the production of foodstuffs, raw materials and manufactures within the Empire wherever the expansion of production is possible and economically desirable for the safety and welfare of the Empire. Therefore the Imperial Government should now declare its adherence to the principle of preferences for products and manufactures of the dominions in respect of any customs duties now or here-after imposed upon imports into the United Kingdom. The committee further considers that it will be necessary soon to consider as one of the methods of achieving the above objects the desirability of establishing a wider range of customs duties which would be remitted or reduced on products and manufactures of the Empire and which would form the basis of commercial treaties with the Allies and neutrals.

While the report was hailed by certain papers as heralding a new era of fiscal policy and the *Daily Mail* thought that the war had ended the preference controversy for ever, the *Daily News* remarked that 'a more surprising document can rarely have been issued' and added that 'the war has not changed the hard facts on which 'fair trade' and its *allies* had hitherto come to grief.' The *Daily Chronicle* characterised the recommendation about change of fiscal policy as 'a direct plunge into the old Chamberlainite policy with additional complications due to the fact that we have now got the Allies.'

does not demand. In these circumstances, preferential trade will only mean an unnecessary sacrifice of customs revenue and enhancement of the prices of articles supplied by foreign countries. Export duties on raw materials will certainly bring in revenue but it is difficult to say how the Indian producers will be affected by a diminution of exports. Even the most zealous advocates of preferential trade, are not able to show any substantial gain that India is likely to make under a scheme of preferential trade.\* As a business proposition, Imperial preference is not attractive to India. It is on other grounds that it will have to be justified and be recommended for acceptance. Writing of the probable effect of a differential export duty on jute, for instance, Mr. Webb observes.—

“In the case of jute the resultant benefits would accrue rather to the United Kingdom than to India.

This is no reason, however, why India should not take its due position in demanding a statesmanlike revision of our commercial policy.”

**125. Summary.**—Throughout the last century and a half, the Indian tariff has been purely a revenue tariff. During the regime of the East India Company, when England pursued a policy of trade restriction and protection, the interests of Indian industries could not be safeguarded and imports and exports were free in India. When the government of the country was transferred from the hands of the Company to the Crown, free trade had been already accepted as the fiscal creed of England and the Indian tariff remained as before and customs duties were steadily reduced. The need of raising a larger revenue necessitated the enhancement of the import duties on cotton piece goods for a time, but the clamour of Lancashire manufacturers forced Government to reduce them and to impose counter-vailing excise duties.

The free trade policy of England has thus been also the policy of India, partly owing to the conviction of the

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\* M. De. P. Webb: *India and the Empire*.

authorities in England that free imports and exports were beneficial to the people of this country, and partly owing to the pressure of British manufacturers who insisted on having an open door for their goods in the markets out here. The Government and the people of India have disapproved of this policy of open door as detrimental to indigenous industries, but their protests have been a cry in the wilderness. The Secretary of State for India could not resist the pressure brought to bear on him by manufacturing interests, and fiscal autonomy is the crying need of the country.

Indian thinkers are convinced that freedom of exchange between countries, as between different parts of a particular country, is beneficial in theory; but such free exchange between nations standing on different planes of economic development, reduces the productive capacity of the backward country and weakens it in international competition. If the State in India were to provide technical and scientific education, help the organization of industries by industrial surveys and demonstrations and to protect infant industries against foreign competition, the economic advance of India would be very rapid. Other nations have adopted this policy and they have succeeded, but the State in India has no independent policy of its own and is not governed by public opinion.

Fiscal autonomy and popular control of Government are two necessary reforms which are essentially bound up together. Indian opinion is frankly and strongly protectionist and requires that this country must follow a fiscal policy which is suited to its economic conditions. The Indian fiscal problem is, however, intimately connected with the problem of Imperial reorganization. Preferential trade within the Empire has been advocated by British tariff reformers and the war with Germany gave it an extraordinary interest. In any reconstruction of the Empire, India will have to be accorded the same status as



the self-governing Dominions, and this country will make any sacrifices which its responsibilities as a partner in the Empire will entail.

The vastness of this country and of its population, its growing commerce and its strategical position, its wealth of raw materials and its expanding markets make India an important factor in the Imperial situation. But in a scheme of preferential trade, its interests will have to be duly considered and this duty will be best performed by its own representatives. Those who have adumbrated schemes of Imperial preference have not been able to demonstrate the advantage which India's participation will yield to this country, and the view expressed by the Government of India in 1903 that India stands to gain little by her joining in an Imperial Zollverein, is as correct to-day as it was fourteen years ago.

The problem must be looked at from the business as well as the sentimental point of view and the two will have to be reconciled. India cannot and will not stand aloof from a scheme of constitutional and fiscal reorganization of the Empire. But she wants effective protection for her industries, and her economic interests must be carefully safeguarded in whatever arrangements will be made. The solution of the problem is surrounded with difficulties, but they have got to be faced. Fiscal autonomy for the Government of India, popular control of that Government in India, partnership of this country in the Imperial organisation on a footing of equality with the other component parts of the Empire and Imperial consolidation for purposes of defence and peaceful progress, are issues which hang together and they cannot be separated and handled piece-meal. The fact that India has rights as well as responsibilities, has not been sufficiently recognized. But from this recognition must proceed all schemes of Imperial reconstruction and fiscal reorganization.

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## Chapter X.

### THE CURRENCY SYSTEM.

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**126. Old System.**—Though barter largely prevailed in Indian villages, gold and silver coins have been very commonly used by the people from remote times. There is sufficient evidence to show that during several centuries preceding the Christian era and, of course, succeeding it, emperors and kings highly cherished the privilege of coining money both of gold and silver, and the internal trade of the country required large quantities of coins of various denominations.\* The importance of metallic money was clearly understood and royal mints were systematically managed.

The Mahomedan kings of Delhi in the Middle Ages, had their own distinctive coins and 'Altamish introduced a purely Arabic coinage and made the silver tanka of 175 grains, the ancestor of the rupee, his standard.'\* Mahmud Taghluk improved the gold and silver coinage and introduced a token currency of copper which, however,

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\* See Lane-Poole: *Medieval India*.

he had to recall on account of the ease with which it lent itself to counterfeiting. Akbar improved the currency still further and it was maintained in the time of his successors. The Mahomedan rulers of central and southern India followed the example of the Delhi emperors and issued gold and silver coins. Under Mahratta rule the gold Hon was the standard coin and grants were made and assessments of the land tax fixed in terms of the gold coinage. The rupee coins of the Mahomedan kingdoms, however, circulated widely in the seventeenth century and the rupee soon came to have an extensive vogue.

It is well known that even in very old times, the exports of India were paid for by foreign countries in gold, and Roman coins have been found in large quantities in the Madras Presidency. There is no wonder if in a large continent like India, divided into numerous kingdoms and principalities, hundreds of different coins should have been issued and been simultaneously in circulation. The varying relative values of these coins must have caused much uncertainty and inconvenience in commercial transactions, but the intrinsic values of the chief coins were probably well known to experts and business men.

"The policy of one mint and one coin current all over the realm, with which we have become so familiar in the present century, did not find much practical recognition in this or any other part of India. Mr. Macleod in his work on "Indian Currency" mentions that when British Rule commenced, there were no less than nine hundred and ninety-four (994) different coins of gold and silver current in India. In an official table published for the guidance of the civil courts in the Bombay Presidency the names of no less than thirty-eight gold coins and over one hundred and twenty-seven silver coins are mentioned as still so far current in different parts of this Presidency as to make it worthwhile to give the relative intrinsic

values of these local currencies in exchange for the Queen's coin."\*

To mint coins was a privilege of sovereignty and was exercised by petty rulers as much as by powerful kings. Several of the coins bore the distinctive names of the places where they were minted. Under the Mahrattas, in the middle of the eighteenth century, manufacturers of money were licensed by the Government on payment of a fee and the weight, quality and denomination were fixed. The ratio of the Delhi gold Mohur to the rupee was 1 to 15½. The mints were not open to private coinage in the sense in which the expression is understood, but the supply must have been well adjusted to the demand.

It appears that the silver rupee coin circulated very largely in Northern India and the gold mohur was only a supplementary coin there. The position was reversed in Southern India where the gold coin enjoyed the widest circulation and the silver coins were only subsidiary to it. The landmarks in the history of Indian currency since the beginning of the last century will be indicated below. From them it will be seen that whereas under the Hindu and Mahomedan rulers, both gold and silver coins circulated freely in the country without an attempt on the part of Government to fix the relative values of the two, the silver rupee is now the main coin of the whole country, supplemented by paper currency and the gold sovereign, for the minting of which arrangements have only recently been made in Bombay and whose relation to the silver coin is fixed by law.

**127. Under East India Company.**—The confusion caused by the multiplicity and variety of coins led the East India Company which had its own distinctive rupees coined in Bombay and Madras, to think of making the

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\* *Ranade : Currencies and Mints under Mahratta Rule.*

currency uniform, and though in 1806 the Directors declared that while "fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account," they did not wish "to introduce a silver currency to the exclusion of the gold," only twelve years later, the silver rupee was substituted for the gold pagoda as the standard coin of the Madras Presidency, where gold coins had, till that time, been the principal currency and money of account.

In 1835, the persent silver rupee was formally established as the standard coin of the whole of British India, and gold was demonetised. It was enacted that 'no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company.' But by a proclamation of 1841, Government authorised officers in charge of public treasuries freely to receive gold mohurs at fixed rates which represented a ratio of 15 to 1 between silver and gold. By the middle of the last century gold depreciated owing to the discoveries of the yellow metal in Australia, and Government in India became embarrassed when the public took advantage of this divergence between the legal and the market ratio of gold to silver by presenting gold at the treasuries and exchanging it for a larger value in silver. A notification was, therefore, issued declaring that on and after 1st January, 1853, "no gold coin will be received on account of payment due or in any way to be made, to the Government in any public treasury within the territories of the East India Company."

The 'battle of the standards' was fought on the Indian soil as on that of Europe, and the difficulty of adjusting the ratio of gold to silver was experienced in India as elsewhere. Both gold and silver had their advocates in India, and there was a division of opinion among officials of Government. Merchants in India, Indian and European, memorialised the Government of India for a

gold currency, and the latter were prepared to make sovereigns and half sovereigns legal tender at the rate of one sovereign for 10 rupees. The Imperial Government did not approve of the proposal and only authorised the receipt of gold coins in public treasuries as used to be done before 1853, at fixed rates.

**128. Bimetallic System.**—Fluctuations in the relative values of gold and silver in European countries and America which were on a bimetallic basis, caused great embarrassment by the influx now of one metal and now of the other. The value of silver relatively to gold began to fall and as some European countries followed England's lead in adopting the gold standard, the other nations of Europe combined in the Latin Union to protect themselves from the danger of being overflowed with the cheap white metal. The value of silver which was  $60\frac{1}{2}$  d. per. oz. in 1872, came down to  $53\frac{1}{2}$  d. in 1876, to  $50\frac{1}{2}$  d. in 1883, to  $42\frac{1}{2}$  d. in 1888 and to  $35\frac{1}{2}$  d. in 1893. The countries of the Latin Union were compelled to abandon the bimetallic system and to give up the free coinage of silver. Thus came to be established the 'limping' standard under which though silver coins are full legal tender, there is no free coinage and they are virtually token money. This meant the triumph of the gold standard, which has now been adopted in all countries of the world except China.

Under bimetallism, both gold and silver are standards of value, and the relation between the values of the two is fixed by law from time to time. Mints are open to the coinage of both the metals and both are full legal tender. The market rates of gold and silver fluctuate while the legal rates remain fixed, and for the time being, the overvalued metal drives the undervalued metal out of circulation and out of the country. If bimetallism were adopted by the principal nations of the world, the fluctuations and the embarrassment would be considerably minimised. But no agreement could be arrived at on this question, and nations had to

adopt the gold standard accompanied by a legal tender silver currency, whose parity with gold was maintained by State regulation of the coinage of the white metal.†

**129. Difficulties in India.**—From 1835 to 1899 Indian currency rested on a silver basis, but the circumstances which forced Government to adopt the gold standard were peculiar. India is a debtor country. Its Government has to remit to England every year crores of rupees for meeting the Home Charges, its expenditure in London on account of interest, pensions, salaries and so forth. The revenue of Government is collected in silver rupees and the charges in England must be met in gold. When silver was demonetised by European countries and its supplies were larger than the demand, the value of the white metal expressed in gold steadily fell. The lower the gold value of silver, the larger was the amount of rupees the Government had to find to meet the Home Charges. In fact, the drop of one penny in this exchange value, added more than one crore to the amount of rupees that had to be provided for procuring the necessary amount of gold to meet the home charges in England.

“To make this point clearer, it may be mentioned that in 1873-74, before the fall in the exchange value of the rupee commenced, the amount of Home remittance in lieu of payments the Secretary of State makes in England on behalf of the Indian Government, of such charges as interest on debt raised in England, civil and military pensions, salaries, the price of stores etc., was about £ 13 millions, which at a rate of exchange of 1 s. 10'351 d. was represented by Rs.

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† It is felt that the present is an opportune moment for making an effort, by international agreement, to establish the bimetallic system in the principal countries of the world. After the war, the scramble for the possession of gold will be great and the supply of the yellow metal will not be adequate. It is, therefore, felt that the British Empire and the U. S. A. should join hands, along with their allies, to recognise both silver and gold as standard metals.

14,26,57,000. During 1892-93 the amount remitted was £16½ millions which at the average rate of exchange in that year, viz. 1 s. 2'985 d. required a payment of Rs. 26,47,84,150. If this had been remitted at the rate of exchange of the year 1873-74, it would have needed only Rs. 17,75,19,200, which means that there was a loss of Rs. 8,72,54,950 entailed upon India by the falling exchange in that year."\*

Besides Government, merchants and others who had to make remittances to England, sustained a loss and had to suffer from the inconvenience of uncertainty. The Government of India felt the necessity of adopting the gold standard and the introduction of a gold currency, and the temporary suspension of the compulsory coinage of silver by Indian mints, had been suggested to them; "but the main object of such attempts as were made by that Government to deal with the subject between 1878 and 1892, was not to effect a change of standard in India but to facilitate an international agreement which might cause a rise in the gold price of silver, and thus diminish the inconvenience resulting from the retention of a silver standard in India." The United States of America too had to face the problem of depreciating silver and attempts were made in that country by the Bland and Sherman Acts to maintain the price of the white metal by the continuous purchase and coinage of fixed quantities of that metal. When these attempts failed and there was little prospect of an international agreement, the Government of India proposed at once to close their mints to the free coinage of silver and to make arrangements for the introduction of a gold standard. In a telegram to the Secretary of State, of 22nd January 1893, the Government of India explained their proposal by saying that they would issue a notification declaring that English gold coins would be legal tender in India at a rate of not less than 18 d. per rupee and that an interval of time should

\* Gokhale and Economic Reforms, page 28.



elapse between the mints being closed and any attempt being made to coin gold in India.

**130. The Currency Committees.**—The Secretary of State for India referred the proposal to a committee presided over by Lord Herschell, which reported in favour of the suggestion. In accordance with the recommendations of the Committee, Act No. VIII of 1893 was passed providing for the closing of the Indian mints to the "free coinage" of both gold and silver, however, reserving power to Government to coin rupees on its own account. By notifications arrangements were made for the receipt of gold at the Indian mints in exchange for rupees at a rate of 16 d. per rupee. When the question was raised in 1897 whether the Indian Government would join France and the United States of America in following a common policy of free coinage of silver and gold at a ratio of 15½ to 1, the Government recorded the decided opinion that it would be unwise to do so.

In 1898, the Secretary of State for India appointed the Fowler Committee to consider and report upon certain proposals which the Government of India had made with the object of making effective the policy adopted in 1893. At this time the currency position was as follows :—

(1) Gold is not legal tender in India though the Government will receive it in the payment of public dues; (2) that the rupee remains by law the only coin in which other than small payments can be made; (3) but that the Indian Government has declared (until further notice) a rate at which rupees can be purchased for gold coin or bullion—such rate serving to determine the maximum limit to which the sterling exchange can rise under present arrangements.\*

Widely divergent views were held as to the wisdom and justice of the policy adopted in 1893, and the several interests involved, looked at the question from different points of view. The British Treasury, to whom the ques-

\* Report of the Fowler Committee.

tion had been referred by the Secretary of State on the receipt of proposals from the Indian Government, consistently set its face, in 1879 and in 1886, against tampering with the currency and making it artificial. It pointed out that whatever relief would be secured by Government would be at the expense of the Indian taxpayer.

On the one hand, (1) the need of stability of exchange as a condition of prosperous trade and (2) the necessity of preventing the losses which a falling exchange entailed on Government, were urged in favour of the adoption of a gold standard and in justification of the closing of mints to the free coinage of silver. It was pointed out, on the other hand, (1) that silver monometallism was the best policy for India, (2) that the exchange difficulty could be met by retrenchment and economy and the systematic curtailment of India's gold obligations e. g. home charges, (3) that a falling exchange had stimulated trade and promoted prosperity and (4) that an artificial currency system was undesirable.

All these conflicting views were placed by witnesses before the Fowler Committee which had to decide whether India should revert to the old system or follow up the arrangements initiated in 1893. On a review of the whole position and a careful consideration of the divergent opinions submitted to it, the Committee declared itself in favour of the effective establishment of a gold standard to be accompanied, of course, by a gold currency. The restriction of 1893 and other causes had pushed up the gold price of the rupee and, therefore, the exchange to 16*d.* at which the Committee stated that it should be fixed. The rupee would now become a token coin, but the committee could not recommend the imposition of a limit on the amount for which rupees should constitute a legal tender. The profit on the coinage of rupees, which was to be undertaken when the proportion of gold in the currency exceeded the demand, was to be accumulated in

a special reserve fund. This profit would represent the difference between the intrinsic metallic value of the rupee and its artificial value. These recommendations were accepted in their entirety by the Indian authorities and steps were immediately taken to carry them out.

**131. Opposition to Change of Standard.**—It may be generally observed that the currency policy recommended by the Fowler Committee has been admitted, on the whole, to have been a sound policy, though the steps which led to it, were partly the result of a panic, partly of helpless drifting and partly of concentration of attention only on one aspect of the problem viz. the financial embarrassment caused by a falling exchange. It is interesting to notice the strong views expressed by financial experts and high Government officials before 1893 against any tampering with the Indian silver standard.

Mr. R. Hardy, Treasurer and Secretary, Bank of Bengal, stated in a memorandum, dated 22nd May 1886:—

"In conclusion, I would observe that the whole position of India, as a nation, in regard to the silver question, may be stated broadly as follows:—The foreign trade of India consists of exports of merchandise: the exports pay not only for India's gold obligations abroad, but for her imports of merchandise as well, and a balance always remains in her favour. This balance she takes in silver. If silver is cheap she gets more of the metal than she would get if it were not so cheap, and I hold that it is most to her advantage to get more, than less silver. It, moreover, appears obvious that the pressure of the gold payments upon India as a whole, depends not upon the price of silver, but upon the gold prices realised for the merchandise exported to meet such gold payments. That the Government is in the position of receiving its revenue in silver, it may be asserted, does not affect that, the national aspect of the question, and in my view it is, therefore, clearly the duty of Government

to meet any financial necessity arising from a fall in the exchange, either by increasing taxation or by reducing expenditure, or by both. To attempt to meet the difficulty by taking the extreme measure of changing the standard of value is, I think, out of the question, and I express this view, holding the opinion that the value of silver will probably yet fall considerably."\*

Referring to Lieutenant-General Strachey's proposal to give India a gold standard without a gold coinage, provision being made for the expansion of the currency to meet requirements of trade, Mr. J. Westland, Comptroller and Auditor General, wrote in 1886 :—

" I am inclined rather to say that greater facility in meeting its home obligations is the *only* interest that India has in a gold standard; and if a silver standard is better with respect to all its other relations and concerns, I cannot concede that the question connected with its home obligation is of such tremendous importance as to overwhelm all others. The fact that our European officials, regarding our connection with India as only temporary look to the gold standard of the country, where we ultimately intend to live, as preferable, for our own purposes, to the silver standard of the country where we earn our living, is somewhat apt to increase in our eyes the importance of remittance from India to England. But if we want to stay in India all our lives, and our children after us, as the infinite majority of people dwelling in India do, I doubt if we would look upon a manifestly appreciating standard as more desirable than one which has been fairly steady in the past, so far as absolute value can be measured....."

Mr. D. Barbour, Secretary to the Government of India, Department of Finance and Commerce, held identical views and maintained:—

\* See Selection from Papers relating to the Introduction of a Gold Currency in India, pages 433 to 460.

"The loss or gain therefore to India, as distinguished from the Government of India, in respect of her permanent gold obligations, depends entirely on the gold prices which she can obtain for her exports. No manipulation of the Indian currency can possibly affect the gold prices of Indian exports and therefore General Strachey's proposal could in no case give any relief to India as a country whatever effect it might have on the financial position of Government. Just as much as Government gained, just so much must the Indian people lose."

There was a large body of people in India holding similar views\* and they contended that (1) the exchange difficulty could have been and ought to have been met by economy and a reduction in the gold obligations of Government; (2) and that it was not necessary to alter the standard of value as an artificial increase in the value of the rupee only transferred the burden from the State treasury to the shoulders of the people.

**182. Change Effected.**—The financial embarrassments of Government, however, proved an irresistible argument in favour of the adoption of the suggestion to make the rupees token coins and, by restricting their output, to raise their exchange value to 16d. per rupee. In 1899 the Government gave up its attitude of hesitancy and boldly embarked upon a policy of a gold standard to be ultimately accompanied by a gold currency. (1) Sovereigns and half sovereigns were made legal tender; (2) active steps were taken to open a mint for the coinage of gold in India, though the scheme was dropped in 1902 to be revived only ten years later; (3) profits on the coinage of rupees were being accumulated in a special gold reserve to be used for the support of exchange; (4) efforts were made to induce people to use sovereigns as a medium of circulation. But very soon Government policy began to drift, the ideal recommended by the Fowler Committee was put out of

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\* See Appendix to the Report of the Fowler Committee, pages 47 to 64.

sight, and India came to have a gold exchange standard instead of a genuine gold standard.

Government departed in several important particulars from the lines of policy laid down by the Fowler Committee.

"The investment of the Gold Standard Reserve in securities in London, the dropping of the scheme for a gold mint in India, the practice of selling Council Drafts at something below gold point against the Currency Reserve, the establishment of the silver branch of the Gold Standard Reserve, the diversion in 1907 of monsy from that Reserve for capital expenditure and its use in 1908 for meeting drafts sold by Government in India on London to private traders, are all examples of divergences from the scheme adumbrated by the Committee.....The system actually in operation has accordingly never been deliberately adopted as a consistent whole, nor do the authorities themselves appear always to have had a clear idea of the final object to be attained. To a great extent this system is the result of a series of experiments."\*

**133. Gold Exchange Standard.**—In India, as in other countries having a gold exchange standard,

"Gold actually in circulation whether, it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible in gold and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home, but in London, Paris, and other monetary centres, just as India's gold standard reserve is held in London."

Mr. J. M. Keynes, in his book† and the Chamberlain Commission in its report, have favoured the gold exchange standard as peculiarly suited to the condition of India and

\* See Chamberlain Commission's Report, page 13.

† Indian Currency and Finance.

have dilated on the wastefulness of a gold currency. The latter sums up its view in this connection thus :—

"Our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to saving or hoarding), that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations."<sup>†</sup>

In his masterly note of dissent appended to the Chamberlain Commission's Report, Sir James Begbie, has disposed of the objections taken to the adoption in India of a true gold standard, accompanied by gold coins in circulation, as was recommended by the Fowler Committee. Financiers in other countries are alarmed at the large absorption of gold in India and would like that the stream of the yellow metal flowing to this country should be diverted into other channels. Imports of gold into India are only the price paid by foreign nations for a part of Indian exports, and the currency system of India cannot be developed to suit their convenience and interests. The accounts of the hoards of gold in India and of the hoarding habits of the people, are exaggerated and the fact that the masses in western countries also are addicted to that habit has been brought out by the quantities of sovereigns and other gold coins which have emerged from unexpected quarters for investment in war loans.\* We have ample evidence to prove that gold coins have always been popular and in extensive circulation in this country. One of the lessons Mr. Ranade drew from his study of Mahratta

—† Chamberlain Commission's Report, page 20.

\* Committees of patriotic people in England have succeeded in unearthing small and scattered treasures of sovereigns from villages.

history was that 'the statement now so generally made that India was too poor a country for the circulation of gold coins is unsupported by the facts of the case, as they can be ascertained from the history of the mints under Mahratta rule' and that there is no reason why 'if the gold coins were in demand a hundred years ago there should not be a similar natural demand for these coins in our present condition of greatly extended commercial and banking activity.'†

Conditions in India in this respect are different from those prevalent in other countries which have a gold exchange standard. (1) Here the annual gold absorption is large and the production of the yellow metal in Indian mines comes to four or five crores a year. (2) The balance of trade is usually favourable to this country, in spite of the payments which we have to make in England; and occasions when gold may be required for foreign remittance, are rare. (3) The accumulation of token coins turned out of the Indian mints and absorbed by the people, is dangerous, and if facilities are given for the circulation of gold coins by means of a gold mint and otherwise, stability of exchange will be still further secured. (4) The absence of a gold mint in India and the large circulation of silver tokens for which Government does not bind itself to give gold coins, are calculated to foster the hoarding habit which every one is anxious to discourage. (5) Too much attention is paid in India to the maintenance of exchange, and every thing else is subordinated to it. (6) The rupee, which is the principal coin of the country, is only a note printed on silver and its convertibility is limited.\* (7) Gold coins largely circulated in India and were popular before the yellow metal was demonetised in

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† *Currencies and Mints under Mahratta Rule.*

\* See an article on the subject in *The Economic Journal*, June, 1914, by Prof. J. S. Nicholson.



the last century, and if the people want gold coins there is no reason why they should not be supplied to them.†

**134. A Gold Mint for India.**—After the Fowler Committee had recommended the adoption of a gold standard and a gold currency, the Government of India took up seriously the question of starting a gold mint in Bombay, and in his financial statement in 1900, Sir Clinton Dawkins announced that every thing was ready. But all possible imaginary difficulties having been raised by the Mint authorities in London and the British Treasury, the project was abandoned. The question was raised again in 1912 by Sir Vithaldas Thackersay by moving a resolution in the Supreme Legislative Council and Mr. Gokhale accorded his support to the suggestion that gold should be coined in the Indian mints.

The Government of India sent a despatch to the Secretary of State, dated 16th May, 1912, and strongly urged the necessity of minting a gold coin in India. The plea put forward in the despatch is supported by sound reasoning, and it completely demolishes the case of the opponents of the proposal. The despatch examines and refutes the arguments, (1) that an Indian gold coin is unnecessary, (2) that it will not assist the maintenance of exchange, (3) that it will be too expensive, and ends by remarking (4) that the proposal for a gold coinage had behind it the support of Indian public opinion.

Lord Crewe, the Secretary of State for India, referred the proposal to the Lord Commissioners of the Treasury.

† Special inquiries were made with regard to the circulation and popularity of the sovereign in the different parts of India, and Mr. Howard, Controller of Currency, arrived at the following conclusion:—"On the whole, it may perhaps be fairly concluded from this evidence that the popularity of the sovereign as a medium of ordinary currency depends largely upon the extent to which it is made available to the cultivator by the various firms and middlemen who buy up his produce, and that when it is available in large quantities it is gladly accepted and used in every day transactions..... There is no doubt that some gold is hoarded or, in other words, put aside to meet exceptional and unforeseen expenditure, but this is only natural".—Report of the Controller of Currency for 1913-14, Appendix III.

They did not accept it and, instead, offered two alternatives:—

(1) "That a branch Mint be established at Bombay solely for coinage of gold under the supervision of the Royal Mint and His Majesty's Treasury; (2) that the control of the whole of the existing Mint at Bombay be taken over by His Majesty's Government, who would accept at the expense of India the responsibility for an establishment, producing not only British gold coins but also coins for circulation in India, that is, silver and nickel."

These proposals could not be acceptable; but as Lord Crewe pointed out in his reply, it was open to the Government of India 'to produce at one of the Indian Mints a separate Indian gold coin of the denomination of say Rs. 10.' The Secretary of State suggested that this course would be inexpensive and would avoid the intervention of the British authorities in India's general coinage operations. There was further this advantage that a gold coin of the denomination suggested would satisfy such currency requirements as are not met by the present facilities for obtaining sovereigns, rupees and notes.

The Chamberlain Commission, however, holding as it did that a gold exchange standard with an actual currency consisting of token coins and notes, was quite enough for India, did not see its way to lend its support to the idea of a gold mint or even 'of the circulation of gold as currency. But if Indian sentiment wanted a mint and if the Government was prepared to incur the expense, the Commission stated, it might have a gold mint provided the coin to be minted was the sovereign (or the half-sovereign)."

**135. Gold Standard Reserve Fund.**—One of the chief buttresses of the Indian currency system is the

\* The monetary stringency caused by the War, at last swept away all objections and forced the hands of the Government, and a Royal Proclamation was issued on 21st December, 1917, directing that a branch of the Royal Mint be established in Bombay, that gold coins of the same denominations, designs,

Gold Standard Reserve Fund which was created on the recommendation of the Fowler Committee and was to be formed out of the profits on the coinage of rupees. The gold thus accumulated, was to be made available for foreign remittances whenever the exchange fell below specie point. But the intention of the recommendation and the object of the Reserve were differently interpreted, and the soundness of the policy pursued by Government in connection with the Reserve was seriously called in question. The chief questions for consideration regarding the reserve were :—(1) the purpose for which it should be used ; (2) the form in which it should be held ; (3) its location, that is, whether it should be held in England or India ; and (4), its amount, that is, whether it should be allowed to accumulate indefinitely and, if not, what limit should be placed on its accumulation.\*

These questions were forced upon public attention by the experiments which were made by successive financiers with the gold reserve. As a correspondent observed in the *London Times* towards the close of 1912,

'Sir Edward Law perpetrated the first blunder by investing the reserve in England instead of keeping it in India. He was obsessed by the possibilities of interest, with the result that India has not only lost all the advantages of a liquid gold reserve but has suffered the loss of nearly a million sterling through the depreciation of securities.'

Another point of departure was that in connection with purchases of silver for his coinage operations, Sir Edward Baker decided to hold six crores of rupees of the

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weights and fineness as gold coins coined at the Mint may be coined at the Bombay branch mint, that the Master of the Mint prepare and transmit dyes for the gold coins to be coined in Bombay, that the coins so coined be deemed to have been issued from the London mint and be legal tender in like manner and to like extent, and the Bombay mint be regarded, for the purpose of gold coinage, as part of the London Mint.

\* See Appendices to the Interim Report of the Chamberlains Commission, page 87.

gold standard reserve in coined rupees. Then came the intervention of the Mackay Committee.

"The demand for railway construction had outstripped the capacity of the Government of India to furnish the necessary funds. A committee which sat in England under the chairmanship of Sir James Mackay (Lord Inchcape), light-heartedly recommended that half the profits on coining should be diverted to capital expenditure on railways. A million sterling was misappropriated to this purpose before the universal condemnation of such a perversion of sound principle compelled the Secretary of State to withdraw a decision which in no conceivable circumstances should have been taken."

Attempts were likewise made to fix a limit to the accumulation of the gold reserve fund so that additions to it beyond the limit might be devoted to capital expenditure.

In the crisis of 1907-08, the balance of trade turned against India. Exports fell off owing to the unfavourable character of the agricultural season and imports continued to pour in. There was a heavy demand for remittance of gold abroad, stimulated by the premium upon the yellow metal caused by the American financial crisis. The Government of India first hesitated and doled out gold in small quantities. But its stock was small and was likely to be soon exhausted. It, therefore, sold sterling drafts on London to the extent of £ 8 millions, which put a severe strain on the gold standard and currency reserves in London. This experience taught a valuable lesson in the management of Indian currency, and similar measures were resorted to when there was an adverse balance of trade soon after the out-break of the war.

**136. Recommendations of Chamberlain Commission.**—The Chamberlain Commission discussed all the points in dispute between Government and its critics with reference to the gold Reserve, mainly the questions whether

the bulk of the Reserve should not be held in gold instead of in securities and in India instead of in London and whether the Reserve should not be used to relieve monetary stringency in this country instead of being locked up in England. The Commission thought that as the chief purpose of the Reserve is the maintenance of exchange and as the gold is wanted for payment in London, that financial centre is the proper place where it should be located.

It concluded :—(1) No limit can at present be fixed to the amount upto which the Gold Standard Reserve should be accumulated; (2) the profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve; (3) a much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about 10,000,000*l* in gold can be at once secured. This total should be raised, as opportunity offers, to 15,000,000*l*, and thereafter the authorities should aim at keeping one half of the total reserve in actual gold; (4) the Indian branch of the Reserve in which rupees are now held should be abolished, the rupees being handed over to the Paper Currency Reserve in exchange for gold; (5) the proper place for the location of the whole of the Reserve is London; and (6) the Government should definitely undertake to sell bills in India on London at the rate of 1*s.* 3*½d.* per rupee whenever called upon to do so.

The consideration that a reserve of gold held in India will inspire confidence in the public mind and may be lent to Indian banks to the benefit of commerce and industries, as also the consideration that in a time of crisis location of Indian gold in London may cause serious inconvenience and loss, did not impress the Commission, and it lent its support to the policy pursued by Government with regard to the location of the Reserve. On the outbreak of the

## RECOMMENDATIONS OF CHAMBERLAIN COMMISSION. 2

war, the silver branch of the Reserve was abolished and a loan was taken from it temporarily to replenish the cash balances of the Government of India. The following table shows the disposal of the sums paid to the Reserve upto 31st March, 1916 :—

Profits on Coinage :—				
Total Profits realised, 1st April, 1900 to 31st March, 1916	...	...	...	23,537,195
Deduct amount used for Capital Expenditure on Railways	...	...	...	1,123,655
Profit paid to Gold Standard Reserve	...	...	...	22,413,540
Interest and discount received upto 31st March, 1916	...	...	...	5,453,539
Profit by exchange	...	...	...	109,439
				<u>5,562,978</u>
Profit and Interest paid to Reserve from 1st April, 1900, to 31st March, 1916	...	...	...	27,976,518
<i>Deduct—</i>				
Loss on Sale, Redemption, and Conversion of Securities	...	...	...	1,192,367
Loss through depreciation	...	...	...	512,361
Miscellaneous charges	...	...	...	20,407
				<u>1,725,135</u>
Amount of Reserve on 31st March,	...	...	...	£ 26,251,383
Sterling securities held in England (estimated value)	...	...	...	£ 16,213,692
Cash held in England on account of the Reserve	...	...	...	5,792,631
Gold held in India on account of the Reserve	...	...	...	238,734
Temporary loan from the Reserve to Treasury	...	...	...	
Balances in India	...	...	...	4,000,000
Book credit in Treasury Accounts, India,	...	...	...	1,326
				<u>£ 26,251,383*</u>

\* The balance of the gold Reserve was as under on 31st March, 1917:—

### *In England:—*

Cash placed by the Secretary of State at short notice.	...	...	...	6,001,456
Estimated value of sterling securities of the nominal value of £ 26,320,337	...	...	...	23,403,570

### *In India:—*

Gold	...	...	...	123,000
Total:...				<u>31,510,026</u>

At the end of the official year, 1916-17, the total of the Reserve stood at £ 31·5 millions, more than £ 4 million being added to it on account of the huge coinage of rupees the Government had to undertake to replenish its dwindling stocks. The loan taken from the Reserve was returned to it in the course of the year, and £ 25·4 millions were invested in London, £ 6 millions having been placed at short notice by the Secretary of State for India. The holdings in the gold Reserve on 31st March 1918, were estimated at £ 34·31 million and out of this, £ 28·31 million was invested in London, the remaining £ 6 million being placed at short notice in the same place. There was not an ounce of this gold in India at the close of 1917-18.

**137. Paper Money.**—To economise the use of the precious metals and to supply to the public a more convenient form of currency, Governments and banks issue paper money, and paper occupies a large place in the currencies of the advanced nations. The cheque in England and the bank note on the continent, are extensively used as media of exchange, and metallic money occupies only a very subordinate position there. The right of issuing notes is a monopoly enjoyed by banks in certain countries, while in the United States of America banks are allowed to exercise this function freely.\* As the right to coin money out of paper is likely to be abused to the detriment of the public, the issue of notes is generally regulated by the State in all countries. Where there are State banks, as in Russia, there is no question of the control of Government. In countries, like England, France and Germany where the connection between the central bank and the State is very intimate and in America, where there are numerous private banks enjoying the right of note issue, the regulation of the issue of notes is found necessary in the interests of the public.

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\* Though there is no monopoly of issue in the U. S. A., the privilege of note issue enjoyed by banks is hedged in with various conditions and restrictions.

There has recently been a great expansion of paper currency in India, the stringency of money caused by the war having necessitated the issue of large quantities of notes. The use of cheques in ordinary transactions, is, however, extremely limited and though the progress of paper circulation is satisfactory, so far as it goes, there is yet an unlimited field for the expansion of paper currency. Spread of education, progress of industries and commerce and the policy of Government tending to popularise currency notes, will encourage a larger use of paper substitutes for metallic money. Instruments of credit were in use among bankers and merchants in old times but bank notes and notes issued by the State as a part of general currency, were not known. This is a development of the past seventy years.

"Under Acts of the Governor-General, Nos. VI of 1839, III of 1840 and IX of 1843, the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the issue of the notes was practically confined to the three cities of Calcutta, Bombay and Madras. These notes were not legal tender. The issues were limited to maxima of two crores of rupees in the cases of the Bank of Bengal and Bombay, and of one crore in that of the Bank of Madras. These Acts were repealed by Act XIX of 1861, providing for the issue of a paper currency through a Government Department by means of notes of the Government of India payable to bearer on demand. These notes were made legal tender within the circles of issue. Since the 1st March 1862, when this Act took effect, no banks have been allowed to issue notes in India." \*

**138. Regulation of Issue.**—Mr. James Wilson, Finance Member of the Governor-General's Council, initiated the new policy by introducing a Bill relating to the paper currency in India in 1860. He pointed out in

\* Memorandum submitted by Mr. F. W. Newmarch to the Chamberlains Commission.



his speech the advantage of a Government paper currency to be managed entirely by the State. "The Government of India," he said, "proposed to take the issue department of the Bank of England as their model."

"Not only would such an issue department possess a security greater perhaps than that of any bank of issue in the world, but there would be a large direct profit to the State from the interest derived from the fiduciary portion of the reserve and an indirect advantage in the improvement of Government credit from the purchase of securities for the paper currency reserve. I should mention that Mr. Wilson's bill did not become law without considerable modification, the principal being that the lowest denomination of note was fixed at 10 rupees instead of five, and that the fiduciary portion of the reserve was limited by the Act, as passed, to four crores of rupees instead of two-thirds of the note circulation as proposed by Mr. Wilson."<sup>†</sup>

Notes, which are only silver or gold certificates, representing a stock of the precious metals of equal value kept in reserve, do not possess the advantages mentioned above; and fiat money or inconvertible paper money has its dangers. The Government of India placed before itself as its guide the English Bank Charter Act of 1844 and imposed a limit upon the fiduciary issue though that limit has been raised from time to time as the circulation of the currency notes has steadily expanded. The issue of bank notes is regulated by the State in all countries. A reserve of gold and silver is insisted on as a guarantee for the encashment of the notes whenever they are presented, and the amount of the notes which need not be so secured by a reserve, is strictly limited by law, a departure being allowed therefrom only under specific conditions. The portion of the note issue not covered by a reserve of cash, may bear a certain ratio to the total

<sup>†</sup> Evidence of Mr. F. W. Newmarch before the Currency Commission, 1914.

circulation or may be a fixed amount to be automatically raised with the increase of issue.\*

It was provided by the Act of 1861 that bullion and coin should be retained as a reserve to pay the notes issued, with the exception of such an amount not exceeding four crores of rupees as the Governor General in Council with the consent of the Secretary of State for India might from time to time fix. This amount was to be invested in "Government securities." In December 1863 the note issue was valued at Rs. 5,11,00,000 and the Reserve was composed thus :—

Silver Coin Reserve	...	...	...	1,91,22,868
Silver Bullion Reserve	...	...	...	1,17,00,000
Government Securities	...	...	...	2,00,77,132
				<hr/> 5,11,00,000

The invested portion of the Reserve was thus about two-fifths of the total circulation.

The maximum fiduciary issue, which was originally limited to 4 crores, was raised to 6 crores in 1872, to 8 crores in 1890, to 12 crores in 1905 and to 14 crores in 1911. Originally the securities in which a portion of the paper currency reserve was to be invested, were to be 'securities of the Government of India'; but when in 1905 the limit of the fiduciary issue was raised to 12 crores, 'securities of the United Kingdom of Great Britain and Ireland' and 'securities issued by the Secretary of State for India in Council under the authority of Act of Parliament, and charged on the revenues of India', were added, the value of the latter classes of securities being limited to 2 crores. By Act VII of 1911 the limit of the invested portion was raised to 14 crores and it was provided that 4 crores out of these might be invested in securities other than those of the Government of India.

As will be shown below, the invested portion has been raised from this limit to Rs. 86 crores, and the bulk

\* Compare British, French, American and German systems in this connection.

of these securities are, at present, British Treasury Bills. By the Indian Paper Currency (Amendment) Act, 1918, the maximum limit for the issue of currency notes against Treasury bills, was raised from 42 to 66 crores of rupees. The metallic portion of the Reserve was 53 per cent. of the active note circulation on 1st February 1918 against 96 per cent. on the same date in 1914.

**139. Currency Reserve.**—For several years the Paper Currency Reserve was kept mainly in silver and in India. But since 1898 this policy has been changed, and a portion of the Reserve is now located in London to be used for the purchase of silver for coinage purposes and also for the support of exchange. In 1898 an Act was passed (II of 1898) enabling notes to be issued against gold held by the Secretary of State in London. This Act was a temporary measure intended to meet exceptional conditions. The Secretary of State sold bills beyond his own requirements for the convenience of trade, but the Government of India could not meet them from their balances. The above Act was intended to enable them to meet the drawings from the Paper Currency Reserve, the Secretary of State setting aside gold to the account of that Reserve in London to the same amount as the Government of India took out from the Reserve in this country to meet his drawings.

This temporary arrangement was extended for two years and then in 1902 by Act IX of that year, made permanent. The Secretary of State was enabled by this Act, to purchase silver bullion and to transmit it to India for currency purposes. 'Thus the Secretary of State might either (1) hold gold in England as part of the reserve against the note issue in India, or (2) he might transmit the gold to this country to serve the same purpose here or (3) he might expend it on the purchase of silver, also to form part of the reserve. Gold or silver in transit to India, from its location as part of the reserve in England or vice

being, remains part of the reserve while in transit. In practice only the first and the third of the above alternative courses are adopted as ordinarily sovereigns are imported on private account in sufficient quantities into India and render it unnecessary for the Secretary of State to ship them.'

If the silver required for coinage purposes cannot be purchased in India,\* it is but reasonable that a part of the Paper Currency Reserve should be transferred to London by the sale of Council bills to enable the Secretary of State to make the necessary purchases whenever necessary. But the portion of this Reserve located in London, came to be regarded as a first line of defence in a time of exchange crisis, and strong objection was taken to the utilization of the currency reserve which is intended mainly to enable the Government of India to encash its notes for supporting exchange and to the investment and locking up of large funds in England. It was argued that the English joint stock banks worked with a very small reserve of gold and relied too much on the Bank of England and that it was dangerous to hold the gold of the currency reserve earmarked at that Bank. The general objection to the transfer of Indian gold to London in the case of the gold standard reserve applied with greater force to the gold in the currency reserve. The Government, however, replied that if the gold on account of the Reserve were not drawn to London, it would, in any case, have to be transferred there for the purchase of silver when the stock of rupees was depleted and gold in India could not serve the purposes of currency. It was stated that

"The gold in the Reserve in India has been much in excess of the demand, that the Gold Standard

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\* The necessity and wisdom of transferring even a part of this Reserve to London have been doubted and it is urged, with much show of reason, that silver purchases should be regularly and directly made in India through Indian merchants.

Reserve has not in itself been sufficient to secure beyond question the stability of exchange, and that gold in London is more directly and indubitably effective for this purpose than gold in India."

The Gold Standards Reserve has recently increased very rapidly owing to the enormous amounts of rupees the Government had to coin to meet war expenditure incurred on account of His Majesty's Government. The necessity of earmarking gold belonging to the Currency Reserve at the Bank of England which is said to be 'equivalent to the export of gold from London to India,' because that gold so set aside against notes issued in this country, is not available to the London market, was removed by an amendment of the law, and the Secretary of State for India was empowered, by successive steps, within three years after the out-break of the war, to invest the Reserve up to a total amount of Rs. 34 crores, this limit of securities in England having been only Rs. 4 crores before the out-break of the war. The total invested portion of the Paper Currency Reserve was increased, by March, 1918, to Rs. 86 crores as against Rs. 14 crores only before the war broke out. The Gold Standard and Paper Currency Reserves have expanded beyond all expectations in the course of the years of war, and the recommendations of the Chamberlain Commission will not give sufficient guidance to decide how they should be invested and utilised as a permanent policy.

**140. Note Circulation.**—Indian currency notes 'are in the form of promissory notes of the Government of India, payable in rupees to bearer on demand, and are issued in denominations of 5, 10, 50, 100, 500, 1,000, and 10,000 rupees. They are issued without limit at any paper currency office against rupees or gold. For the purpose of the note system, India is divided into certain circles, and (with the exception of the 5 rupees note which was universalised outside Burma in 1903) the notes were, until 1910, legal tender only within the circle of issue.' Since

then all the smaller denominations of notes up to and including those for 100 rupees, have been universalised.

An urgent demand for currency which could not be satisfied with the available stock of rupees, led the Government to think of issuing notes of extremely small denominations such as one rupee, in imitation of the one £ and 10s. notes of England. The one-rupee notes were issued on 1st December, 1917 and notes of the denomination of Rs. 2½ on 2nd January, 1918. The issues were first confined to the three Presidency towns and special facilities were given for their encashment at the Post Offices. In the course of a few months their total issue reached a value of Rs. 45 lakhs, and the encashments amounted only to Rs. 11 lakhs. These notes were primarily issued with the object of supplying additional currency and economising the use of silver which had become extremely dear. The above universalisation of notes has assisted to expand and popularise paper currency in India. The average gross circulation of notes was 28·58 crores in 1900-01, 45·14 crores in 1906-07 and 65·62 crores in 1912-13. The active\* average circulation in these years was 22·05, 33·93, 41·82 and 45·39 respectively. The active circulation on the 1st February in the following five years was :—

	Total circulation (crores of Rs.)			Active circulation (crores of Rs.)	
1914	...	63·9	...	...	51·9
1915	...	60·3	...	...	45·1
1916	...	62·4	...	...	54·1
1917	...	84·4	...	...	67·9
1918	...	104·8	...	...	82·1

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\* The 'net' circulation is obtained by deducting from the gross amount the quantity of notes held in Reserve Treasuries. We get the active circulation if notes held in other Government Treasuries and in Presidency Bank Head Offices are further deducted. In this latter calculation notes held in Government Treasuries other than Reserve Treasuries, are not often included.

The following table gives the circulation of each denomination of note on 31st March of 1915, 1916 and 1917.

No. of Notes for Rupees.	1915	1916	1917
5	3,139,195	4,493,223	6,624,239
10	10,986,196	18,830,430	25,598,096
20	28,774	28,846	21,652
50	348,290	449,005	504,130
100	1,605,697	2,035,915	2,532,181
500	47,390	46,661	48,914
1,000	92,037	89,875	112,480
10,000	15,651	12,679	18,890
Total Pieces ...	20,262,710	25,958,637	32,460,539
„ Value in Rs.	61,62,59,615	67,73,34,540	86,37,51,735

The Government of India and the Secretary of State perform several functions which, in other countries, are performed by private and State banks. The connection between the Indian Government and movements of trade, internal and external, is very intimate and the financial operations of the Currency Department and of the India Office, are on an extensive scale.

“Briefly the position is that, in addition to the Treasury, Currency Reserve and Gold Standard Reserve Balances at Head-quarters, Government hold large amounts of money distributed over India in District treasuries and in currency chests, nearly every treasury having such a chest. Money comes

in to the Government treasuries and subtreasuries all over the country in payment of revenue, from which it is necessary to provide funds for expenditures at Head-quarters or in order to meet outgoings in England. Conversely, the trading firms have large remittances to make to the interior in payment for produce. Firms requiring money for this purpose constantly apply to Government for remittance orders from one place to another within the country, and Government meet their requirements so far as they can do so, by the issue at a small charge of supply bills and telegraphic transfers through treasury or currency. The amount of remittances annually effected in this way is very large. The arrangement is economical for all parties concerned as enabling these transactions to be largely effected without any actual movement of coin."<sup>2</sup>

We propose to notice in the next chapter, a similarly intimate relation which subsists between the operations of Government and the adjustment of the transactions of India's external trade.

**III. Summary.**—Gold and silver coins have been used in this country as currency from time immemorial, though no attempt was ever made to lay down by law a ratio between the values of the two coins. Every king and prince had his own coins, and a uniform currency in such a large country was not to be expected. The East India Company found a multiplicity of coins current at the beginning of the nineteenth century and thought it desirable to establish a uniform currency system in its dominions. Without actually demonetising gold, it tried to give prominence to the rupee currency and ultimately silver monometallism became the regular system of the country.

Gold coins still continued for several years to be received at Government treasuries at a fixed ratio of value, but this was found inconvenient and the silver standard

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<sup>2</sup> Report upon the Operations of the Currency Department during the years 1913-14.



was proclaimed in 1853. The Government was asked from time to time to adopt the gold standard but it did not see its way to do so. Silver came to be discarded as standard of value by one country after another in Europe, and the fall in the gold price of silver caused great embarrassment to nations which were on the bimetallic basis. They tried to protect themselves against the influx of the cheap white metal and to maintain the legal ratio between gold and silver. But the efforts proved ineffectual and had to be abandoned. The free coinage of silver was stopped and the silver coins, though unlimited legal tender, became tokens.

India was in a similar case. Here there was no bimetallicism and a parity of the two metals had not to be maintained. But the Government of India had to make remittances to England every year in gold and its revenue was collected in silver rupees. As the gold price of silver steadily declined, Government had to find more rupees to meet the demand for home charges. Economy and additional taxation, Government believed, had reached their limits and they proposed to stop the free coinage of rupees in Indian mints and thus to raise its power of purchasing gold. The Herschell Committee, appointed to inquire into this question, approved the suggestion and in 1893 the mints were closed, not without strong opposition from the public.

Stability of exchange was, however, the main object to be secured and on the advice of the Fowler Committee, the gold value of the rupee which had steadily gone up in the mean while, was fixed at 16d. in 1899. A gold standard was thus established and was to be accompanied by a gold currency in active circulation. This aim was, however, soon lost sight of, and Government drifted towards a gold exchange standard under which the yellow metal is to be made available only for remittance purposes abroad while the currency for internal use may consist of silver tokens

or paper. The policy recommended by the Fowler Committee and accepted by Government was likewise departed from in several important particulars. The gold reserve which was intended to be drawn upon in an exchange crisis in India was removed to London and invested there and the profits on rupee coinage were diverted to railway construction. The Chamberlain Commission was appointed to inquire into the soundness or otherwise of the criticism of the currency and financial policy of Government.

The Commission placed the seal of its approval upon the policy which had been developed and only recommended certain changes with respect to the size of the gold reserve and the form in which it should be kept. It was satisfied with the gold exchange standard and regarded a gold currency in active circulation as superfluous. The Commission held that rupees and notes were quite enough and that the use of gold coins would be wasteful. It recommended that the invested portion of the Paper Currency Reserve should be increased from 14 crores to 20 crores of rupees in view of the steady expansion of paper circulation and of the economy which might thus be effected in the use of metallic money. The limit of this uncovered portion of paper currency has been steadily extended since currency notes were first issued in 1862, till under the stress of the war, Government was empowered to invest Rs. 86 crores out of the reserve, the bulk of it being invested in British Treasury Bills.

Like the Gold Standard Reserve, a part of the Paper Currency Reserve is located in London and is used for purchasing silver and was looked upon as a first line of defence in a financial crisis. The Chamberlain Commission, while disapproving of the suggestion that the currency Reserve, having for its object the redemption of notes in rupees in India, must be maintained in this country, did not endorse the view that it should be relied

upon for maintenance of exchange. Both the Reserves have grown with the currency, and the problem of dealing with them will have to be discussed and finally decided. In the meanwhile, currency notes are becoming more popular and the policy of universalising the notes of denominations upto Rs. 100, seems to have largely contributed to this result. The recommendations of the Chamberlain Commission were being considered by Government when the War broke out and put a stop to all discussion. Extraordinary measures had to be taken in the course of the struggle, and among these was the power taken by Government to increase the invested portion of the Currency Reserve, to invest the major portion of it in British Treasury Bills and to start a gold mint in Bombay. Thus Indian gold granted considerable relief to the London money market and Indian investments ran up to a hundred and twenty-five crores.

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## Chapter XI.

### FOREIGN EXCHANGE AND FINANCE.

#### REFERENCES.

Clare : *A. B. C. of Foreign Exchanges*; J. A. Todd : *The Mechanism of Exchange*; Hartley Withers : *The Meaning of Money*; J. M. Keynes : *Indian Currency and Finance*; H. F. Howard : *India and the Gold Standard*; *Report of the Herschell Committee*; *Report of the Fowler Committee*; *Report of the Chamberlain Commission*; *Annual Reports on the operations of the Currency Department*; *Annual Reviews of the Trade of India*; *Annual Financial Statements*; *Proceedings of the Viceregal Council*; V. G. Kule : *Gokhale and Economic Reforms*.

**142. Mechanism of Exchange.**—If full payment in gold or silver was to be made to foreign countries for commodities imported from them and if they were expected to make remittances of the precious metals for articles exported to them, it would be a troublesome and wasteful proceeding. As the paper money of one country will not be accepted for payment of debts in another, the precious metals will have to pass to and fro between nations to settle their indebtedness to one another. But the trouble is avoided and the expense is saved by the mechanism of bills of exchange which enable international indebtedness to be adjusted very easily. Importers who have to make remittances abroad, purchase the orders issued by exporters of commodities to foreign countries to their customers and send them to their creditors who realise the money from people on whom the bills are drawn and who are themselves saved the trouble of making remittances to their own creditors. If a balance of indebtedness remains after such adjustment has been made, gold or silver may be remitted to make up the amount.

"International like domestic transactions are settled in terms of money: the machinery for effecting payments differs in magnitude, not in principle. A merchant A in France, let us say, has imported coffee from M in Brazil, while B in France has exported the same value of silks to N in Brazil. Instead of sending

money to M, and N sending it back to B, it is far simpler for A and B to settle with each other in Paris and M and N in Rio de Janeiro. B accordingly writes an order, known as a bill of exchange, to N directing him to pay M, or, in technical language, B draws on N; A buys this bill from B and remits (i. e. sends) it to M, who presents it to N and gets it cashed. Thus no money is exported and only one bill is drawn. In as much as it is not always easy for the M's and N's to find each other in Rio de Janeiro, and the A's and B's in Paris, the business of issuing and purchasing such bills has become the function of the banker and the bill broker.\*

The reciprocal liabilities of nations, as of individuals, are not equal and the balance may be paid as much by the remittance of a bill of exchange as of gold. Bills can be transferred by indorsement and are always available in all parts of the world for payment abroad.

"Owing to the rapid growth of English commerce and the stability of our standard of value, London has become the financial centre of the world and there is no country which has not large and constant dealings with London. As a consequence it has become the custom to draw bills upon London, that is, draw bills which are payable in London, all over the world. These are accepted if they are good, everywhere, and they have become by degrees a species of international currency. And since the bills are so plentiful and common it is always easy for any man who is abroad and desires to make a remittance to England to purchase one of these bills from a person whose business it is to deal in them, and then to post the bill to this country."†

"The system by which commercial nations discharge their indebtedness to one another is called 'Foreign exchanges.' It deals, in fact, with the means of transmitting and settling international debts.

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\* Seigman : Principles of Economics.

† H. T. Easton : Money, Exchange and Banking.

At the same time, however, it deals with the international value of money, and with the value of a debt due in one country and payable in another."\*

The rate of foreign exchange is the rate at which a definite amount of foreign money can be obtained and laid down in another country by the payment of the money of one's own country. A merchant who wants to make a remittance to a foreign country, inquires how much he will be able to pay to his creditor abroad with a definite amount of the currency of his own country. If the rate of exchange between London and New York is declared to be 4·866, it means that an English merchant will be able to remit that amount of dollars to America by paying one sovereign in London. Similarly if the exchange on Paris is 25·225, the same merchant will lay down that amount of francs in Paris by paying one sovereign to his banker in England.

**143. Rate of Exchange.**—The rate of exchange between countries having the standard coin made of the same metal, will be the relation between the weights of the metal of a particular fineness contained in the coins. This is the 'mint par of exchange,' and the actual rate will be above or below it as a country has to receive more or less from foreign countries than it owes to them. The fluctuations in the rate of exchange, are, however, limited to the 'gold points,' and of the two methods of remitting money abroad viz. sending gold and sending a draft, that one will be chosen which is less expensive. If the charge of remitting gold is lower than that of posting a bill, the former alternative will, of course, be preferred to the latter.

"When the number of people who want to send from Sydney to London is greater than the number of those who want to send money from London to Sydney, the latter will be in an advantageous position, and able to buy drafts on favourable terms, but the

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\* H. T. Easton : *Money, Exchange and Banking.*

amount in Sydney that their sovereigns or cheques representing sovereigns in London will fetch cannot rise above the exact equivalent plus the cost of remitting coin from one centre to the other. When that point is reached the exchange is at gold point." \*

The relative value of the English sovereign and the French franc is 25f. 22c. to the sovereign which is the mint par of exchange. If the cost of remitting one sovereign to Paris is say 7c., it will buy only 25f. 15c. in that city. A London merchant will prefer to buy a bill and send it rather than remit gold if he can obtain, say 25f. 18c. in Paris by the former method. This will, however, depend upon the mutual indebtedness of England and France which will determine the rate of exchange lying between the gold points.

"It thus becomes evident that the foreign exchanges are a mechanism by which international indebtedness is settled between one country and another and that rates of exchange are the prices at which the currencies of the various countries are expressed relatively to one another. When the balance of claims between two places does not roughly agree gold has to be shipped to settle the difference, unless it can be met by what is called arbitrage which consists of dealings in bills on other centres. For instance, London may not have enough claims on Paris to set off the claims of Paris on it but may be able to fill the gap with bills on Berlin, or some other centre, which Paris may happen to want." †

There can, of course, be no mint par of exchange between countries having currencies of different metals, but the general principles of foreign exchange given above apply also to the reciprocal relation between those currencies. The fluctuations in the rate of exchange will, in these cases, be great, but at any given moment, there will be a definite rate at which the currency of one coun-

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\* Hartley Withers: *The Meaning of Money*.

† *Ibid.*

try based on gold may be converted into that of another having a silver or paper basis. The market price of silver, and the quantity of the paper money in circulation will determine this rate of exchange. The exchange on India before 1898 and on China even at the present day, are instances in point.

There is one matter which it is necessary to make clear in this place, and it relates to the way in which foreign exchange is expressed. We may state either how much of foreign currency a unit of our national currency will buy or how much of our own currency will be needed to purchase a unit of foreign currency. These are two ways of expressing the same relation, but are likely to create confusion in the minds of the uninitiated. Thus in London the exchange on New York and Paris is stated to be \$4.86 and 25f. 20c. respectively, but that on Bombay is said to be 1s. 4½d. From this, the Indian end, we may say that one rupee will buy 1s. 4½d. in London, but on the same principle, the exchange on Bombay would be expressed by being stated as Rs. 14-15-0, which is the amount of the Indian currency that the sovereign will buy in this country. But it is the practise to express both the exchange on London and that on Bombay in English currency and it will be, say 1s. 3½d. and 1s. 4½d.\*

**144. Indian Exchange.**—Having briefly stated the general principles of foreign exchange, we shall now proceed to describe the nature and course of exchange as it affects India. The question of foreign exchange has played a very important part in the development of the

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\* The expressions 'high exchange' and 'low exchange' will prove misleading unless the sense in which they are used in particular cases is clearly understood. A rate of exchange which is favourable from the point of view of importers is unfavourable from that of exporters. But exchange is said to be favourable to a country when it is in a position to receive more of a foreign currency for a definite amount of its own; because it is in having to make excessive remittances abroad that the danger of exhausting national stocks of gold, is involved. National stocks of gold are jealously guarded as on them is reared the whole superstructure of a nation's system of credit.



currency and financial organization of India owing mainly to two causes: (1) First, the standard of value, as described in the last chapter, has for many years, been in India a silver standard. With the steady fall in the value of silver, the exchange with countries having a gold standard went lower and lower till the fall was arrested by the closure of mints in 1893. Exporters of goods from India benefited by a fall in exchange as they received more silver in India for the same quantity of gold obtained in foreign countries as the price of those goods. But importers of commodities from abroad and others who had to make remittances to foreign countries, had to pay more rupees to get the same quantity of sovereigns in London. With the adoption of a gold standard the problem of exchange became easy and fluctuations in the rate were limited.

(2) The second factor in the situation has been the obligation on the Government of India to remit a large amount of money every year to the Secretary of State for meeting the Home Charges. Government was, therefore, deeply interested in bringing about a stability of exchange so that it might be sure as to the amount of rupees it must provide from year to year. Though we now have a gold standard in India, it exists for purposes of exchange only, and the responsibility rests upon Government to maintain the value of the rupee at the fixed rate of 16d. to the rupee. The Indian system is not automatic and the relation of the rupee with foreign currencies is not regulated by the course of the prices of silver and gold and the course of trade. The balance of trade does indeed determine in India, as elsewhere, the fluctuations of exchange between the gold points, but if the exchange rises or falls beyond these limits, it is manipulated by Government by the cessation of the sale of Council bills in London or by the offer of drafts on London, as we shall presently show.

The financial transactions of the Government of India in this country and in London, have thus exercised a powerful influence upon the development of the system of exchange in this country. (3) But there is a third factor in the situation, viz. the needs of the import and export trade of the country. The great Exchange Banks, no doubt, finance the export and import trade of the country, but the Secretary of State for India sells drafts on the Indian Government to place himself in funds in London and also for the convenience of importers of Indian goods into England. The latter want rupees for the payment of the price of Indian exports to be laid down in this country, and they can get the rupees either by purchasing the drafts sold by the Secretary of State for India or by shipping sovereigns to this country and receiving rupees and currency notes in exchange for them. The less expensive of the two methods is, of course, preferred by merchants and bankers.

The Secretary of State has often to sell Council drafts beyond his immediate needs for the convenience of trade, and he places himself in funds for the purchase of silver out of which rupees are coined here. Exchange on India will rise when there is a great demand for remittance to pay for Indian exports in the busy season and will fall in the slack season when exports are reduced and there are very small payments to be made to India. So long as the mints were open, people had the right to take silver bullion to them and to have it coined into rupees. This import of silver into India competed with the sale of the Secretary of State's bills in London. But when the mints were closed and the relation between the rupee and the sovereign was fixed by law, Government got a monopoly of the supply of Indian currency, and foreign merchants could obtain that currency here either through the purchase of Council drafts or the shipment of sovereigns. It is only when the exports from India fall

off owing to scarcity that the method of Council bills fails, and the Government of India has to sell reverse bills, and the Secretary of State meets his requirement by drawing upon his reserves, by borrowing or in other ways.

**145. Development of the System.**—The question of devising a convenient method of remitting funds to England has been often discussed since the beginning of the last century.

"The manner in which such remittances could be defrayed with the greatest advantage engaged the attention of the Court of Directors as long ago as 1813, when they explained to the Government of India that this might be effected either by advance to the public service which would be repaid by the British Government in England, or by remittances through private merchants who would pay money in England in return for bills on the Indian Government, or would receive advances in India from the Government, to be employed in the purchase of goods consigned to the United Kingdom; if these methods failed to give sufficient remittances, bullion might occasionally be consigned to the Court of Directors."<sup>†</sup>

All these different methods have been followed simultaneously or separately as was found necessary and convenient, and the Government of India have also remitted funds to England by buying bills in Calcutta. The method of selling bills of exchange on the Indian Government was found to be the best, and since 1862, reliance has been mainly placed upon it for drawing funds to London.

"Sales of the Secretary of State's Bills were at first made (1862) monthly, and at a fixed rate of exchange. By a series of changes, fortnightly and then weekly sales were substituted for monthly ones; allotments to the highest bidder took the place of sale at a fixed price; tenders were invited (1876) for telegraphic transfers as well as for bills on India; reductions were made in the minimum fraction of a penny per rupee in the price at which tenders would be received; and applications were invited and received for bills and telegraphic transfers on dates intermediate between the regular fortnightly or weekly

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<sup>†</sup> Report of the Fowler Committee: Index and Appendices page 24.

sales. Bills and transfers so sold are described as "intermediates" or "specials."\*

"The method of transferring funds from the treasury of the Government of India to that of the Secretary of State on a large scale by the sale of Council drafts is rendered possible by the fact that India has ordinarily a very large trade balance in her favour. Except in years of very deficient crops and unfavourable trade, this balance is so large as to be only partly met by the remittances which banks and commercial houses are enabled to make to India by purchasing the Secretary of State's drafts; considerable portion of the world's debt to India remains to be discharged by other means. Before the closing of the Indian mints to the free coinage of silver in 1893, this supplemental remittance was effected by shipments of silver to India to be coined into rupees; since the closing of the mints it has taken the form of shipments of sovereigns which are received at the Indian mints and treasuries in exchanges for rupees at the rate of 15 rupees to 1 l."\*

**146. India's Balance of Trade.**—The balance of trade is said to be favourable to a country when its exports to foreign countries exceed its imports from them. But this is a misleading phrase and the so-called favourable balance may mean the drain of a nation's wealth, while an excess of imports over exports may be indicative of growing prosperity. Great Britain imports more than she exports but this excess does not represent her indebtedness to foreign countries, but rather the payments made to her by them for services rendered. The exports of India, which are not paid for by imports, represent the payment this country has to make to the Secretary of State for 'home charges,' the profits of British firms and remittances of Europeans resident here. The true balance of indebtedness is found on a careful syn-

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\* Report of the Chamberlain Commission : Appendix, page, 217.

thesis of various visible and invisible items of export and import, and customs, statistics leave a big gap which a close scrutiny must fill up. The two sides of the account will stand thus:—

(a) Imports of merchandise.	(a) Exports of merchandise to pay for imports of merchandise and of precious metals and securities
(b) " " gold and silver.	(b) Exports of merchandise to pay Home Charges.
(c) " " securities.	(c) Exports of merchandise in lieu of profits, commission, interest &c. payable abroad.
(d) Remittances to private individuals such as travellers &c.	(d) Exports of merchandise to pay for investment of capital in India.
(e) Import of capital for investment.	(e) Remittances to individuals, for support of families &c.
(f) Services rendered to India by Government officials, banks, shipping companies &c.	

As the exports of India are normally in excess of imports, the account sheet may be more conveniently presented thus:—

(a) Exports of merchandise.	(a) Imports of merchandise.
	(b) " " precious metals.
	(c) " " services in various forms rendered by Government servants, merchants, capitalists, manufacturers &c.

The Secretary of State's drawings by means of Council bills and telegraphic transfers are represented as imports. From the point of view of exporters of merchandise this is true because they receive payment from Government treasuries. But from the point of view of the nation, as a whole, Council drafts mean a withdrawal of wealth from India. If the drawings are, therefore, shown on the credit side, an equal amount must be shown on the debit side also. In the statistical tables presented in Government reports, Council bills are invariably shown as imports of funds, but there is no corresponding entry on the other side showing an equal remittance from the Government of India to the India Office. Government transactions also are excluded from the statistics in connection with the balance of trade and this causes some confusion.\*

\* See Appendix I to the Currency Department Report for 1913-14, where the whole question of the balance of accounts is dealt with in detail.

As we shall presently show, the 'favourable' or 'unfavourable' balance of trade in any particular year must not be taken as a decisive indication of the position of the country with respect to its financial or economic prosperity or decay. For instance, the favourable balance or excess of exports in a given year, may mean the export of capital lent to foreign countries. In the case of India, however, an excess of exports or a 'favourable' trade balance, is a permanent feature of the economic condition of the country, and it has given rise to a prolonged controversy. The excess has been spoken of as a 'drain' of India's wealth and as an important cause of India's poverty. The drain has, therefore, been represented by Indian politicians and economists as a 'tribute' paid by India and its reduction has been recommended as a remedy for the improvement of the material and moral condition of the people of this country.

On the other side a strong protest is made against the representation and the excess of exports is shown to be the price of the benefits India receives from British rule and from the use of cheap capital and its description as a 'drain' or 'tribute' is resented as an unwarranted exaggeration. As we have shown in the two balance sheets presented above, the excess of exports can be easily and technically accounted for. It is not, however, a question of mere accounting and we have to go deeper into it. If India imports capital and experts and utilises the services of soldiers, administrators, merchants, ship-pers, educationists and others, she must pay for those services as other nations do under similar conditions. But the question is, whether India cannot and should not engage her own men for the above purposes, and to that extent, reduce the payments which have to be annually made abroad. To reduce the charges India has to pay abroad by enabling the Indian people as far as possible to do what outsiders are doing for them to-day, is the direction the policy of the state has to follow and the Government of India is being constantly urged to adopt that policy.†

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† See the works of R. C. Dutt and Dadabhai Navroji's 'Poverty of India', and the Author's "Gokhale and Economic Reforms", pages 41-44.

The following table will show the chief 'visible' items

	Average of 5 years ending 1908-09	1909-10	1910-11
Imports of Merchandise—			
Ex-government stores . . .	74,567	78,040	86,236
Net imports of—			
Gold ... ..	8,589	14,446	15,98
Silver ... ..	5405	6,242	5,714
Enfaced rupee paper ... ..	367		1,630
Interest on—			
Enfaced rupee paper ... ..	373	347	360
Total import ...	89,801	99,075	109,916
Exports of Merchandise—			
Ex-government Stores ... ..	110,806	125,257	139,921
Net exports of—			
Enfaced rupee paper ... ..	7	520	
Total Export ...	110,813	125,777	139,721
Net Export ...	20,912	26,702	30,005
Council bills paid in India through Treasury ... ..	22,307	18,732	23,175
„ Gold standard Reserves ...	1,233	8,090	600
„ Currency „ „ „ ...	267	1,000	2,346
Funds supplied by Government to finance wheat purchases ... ..			
Reserve bills paid in India ... ..	1,607	156	
Net ... ..	22,100	27,668	26,290
Balance of trade in favour of India ...	...	...	3,715
Balance of trade against India... ..	1,183	964	

# INDIAN BALANCE OF TRADE

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In India's balance sheet :—

(In thousands of £ sterling)

1911-12	1912-13	1913-14	Average of 5 years ending 1913-14	1914-15	1915-16	1916-17
92,383	107,333	122,166	97,232	91,953	87,560	99,748
25,178	25,052	15,550	19,246	5,637	—764	2,764
3,528	4,383	4,163	4,806	6,676	3,717	—2,214
707	353	947	685	238	603	347
287	353	240	297	228	213	195
129,083	137,374	142,666	122,268	104,738	91,389	100,673
151,897	164,059	165,919	149,411	121,061	(a) 131,587	160,591
...	...	...	104	...	...	...
151,897	164,059	165,919	149,515	121,061	131,587	160,591
29,814	26,585	23,053	27,253	16,329	40,258	59,718
24,789	25,888	28,915	24,294	6,594	4,980	8,883
...	...	2,150	2,168	600	7,533	4,295
1,988	...	...	1,107	...	8,190	18,994
...	...	...	...	...	2,833	...
...	...	...	31	8,707	4,893	...
26,777	25,888	31,065	27,538	1,513	18,643	31,872
8037	797	...	...	17,842	21,615	28,046
...	...	8,102	285	...	...	...

(a) Includes £ 4,589,300 being the value of wheat exported on account of Government during 1915-16.



The same balance of trade is exhibited in a clearer

Year.	Gross ex- ports of private merchan- dise.	Gross im- ports of private merchan- dise.	Net ex- ports of private merchan- dise.	Imports of
				Council Bills.
	(1)	(2)	(3)	(4)
1909-10 ... ..	1,87,88	1,17,06	70,82	41,79
1910-11 ... ..	2,09,88	1,39,35	80,53	39,43
1911-12 ... ..	2,37,84	1,38,57	89,27	40,17
1912-13 ... ..	2,46,09	1,61,00	85,09	38,23
1913-14 ... ..	2,48,38	1,83,35	65,03	46,60
Average for 5 years..	2,34,11	1,45,84	78,27	41,53
1914-15 ... ..	1,81,80	1,97,93	43,67	-2,37
1915-16 ... ..	1,97,33 (a)	1,31,34 (b)	65,99 (a)	23,71 (b)
1916-17 ... ..	2,40,80	1,49,63	91,16	47,07

(a) These figures include exports of wheat on Government account with a value of 6,90 lakhs.

	1914-15.	1915-16.
(b) Council bills and transfers	10,79	31,06
Reverse Councils	13,06	7,34
	-2,27	23,71

# INDIAN BALANCE OF TRADE.

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way in the following table\* :—

( In lakhs of rupees. )

Funds and Treasure.					Balance Net export trans- actions+ Net import transac- tions .
Gold sovereigns (Net).	Gold bullion (Net).	Silver bullion and coin (Net).	Govern- ment secu- rities (Net).	Total 4 to 8.	
(5)	(6)	(7)	(8)	(9)	(10)
	7,86	9,37	—78	72,00	—1 '8
12,24	11,74	8,61	2,43	74,45	+6,08
27,34	10,42	5,39	1,06	84,26	+4,99
26,45	11,15	6,57	53	83,51	+1,58
11,34	11,89	6,24	1,12	77,28	—11,36
18,23	10,63	7,22	87	76,30	—3
1,65	6,80	10,01	35	16,54	+27,13
—2,68	1,54	,58	90	29,05	+36,83
1 77	11,51	—3,33	52	57,56	+32,71

\* See Report upon the operations of the Currency Department  
for 1916-17 and Review of the Trade of India, 1916.17.

**147. Adjustment of Trade Balance.**—The above two tables will give a sufficiently clear idea of the way in which the national debts and credits are balanced. During the five years preceeding the outbreak of the War, the excess of exports over imports of private merchandise was, on an average, Rs. 78·27 lakhs. This amount was due to India in payment for her exports, and it was paid partly by exports of gold and silver to this country and the balance was diverted by the Secretary of State for India by means of the sale of Council bills. The proceeds of these sales were used to meet the 'home charges,' to buy silver for the coinage of rupees in India, for the repayment of debt and for capital expenditure.

"The annual exports from India are generally in excess of her imports, and an adjustment of the value of the net exports is effected partly by remittances through Government, partly by actual shipment of coin and bullion and partly in other ways. The remittances through Government are effected by means of the Council bills and the telegraphic transfers sold by the Secretary of State, which are promises by Government to pay on demand, at the treasuries in Calcutta, Madras and Bombay, the amounts specified in the bills. The bills thus serve the double purpose of placing the Secretary of State in funds to meet his outgoings in London, and of enabling trade to make a remittance of funds in the opposite direction from London to India."\*

It must be borne in mind that the balance of trade is never settled within any period of twelve months like that of the official year, which is made the basis of our calculations, but if longer periods are taken, the adjustment is seen to have taken place. In the case of India, besides the 30 crores that are annually remitted to England on account of 'home charges', a large amount, variously calculated, goes out of the country in payment of profits

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\* Report of the Currency Department for 1913-14.

of companies and earnings of individuals. Taking the British capital invested in this country† in a variety of industrial and commercial enterprises at Rs. 750 crores, we may safely assume that the interest and profit on this amount cannot annually be less than Rs. 40 crores. If the excess of exports over imports is not equivalent to those 40 crores *plus* the 30 crores of the home charges as one would expect, it must be assumed that a part of the above interest and profit is spent in the country and remains to be invested in the expansion of the trade and industry of India.

The excess of exports over imports in 1916-17 was the highest on record. India found herself in that year a creditor to other countries roughly to the extent of 90 crores of rupees. And the way in which this trade balance was adjusted, throws a flood of light upon the nature of India's balance of accounts. Mr. Cook's report upon the operations of the Currency Department in this connection is extremely instructive, and it supplies information which is not ordinarily available. Of the 90 crores due to India in 1916-17, 59 crores were remitted through Government by means of Council bills (47 crores), money orders and postal orders (3·3 crores, net), telegraphic transfers etc. (4·5 crores) and in other ways. The balance of 31 crores was set off by a remittance of funds from India in a variety of ways such as under:—

Remittance for investment abroad e. g. in war loans &c.	...	£ 5 mill.
Remittance of values of shares of Indian companies sold	...	...
owing to high profits realized	...	£ 1¼ mill.
Remittance of profits of British companies operating	...	...
in India (about)	...	£ 5 mill.
Remittance of profits by railway companies	...	£ 1¼ mill.
Private remittances for individuals, for instance, partners	...	...
residing in England	...	£ 2 mill.

**148. Council Bills.**—The Secretary of State for India can conveniently draw funds from this country by

\* See H. F. Howard: India and the Gold Standard, page 95.

selling his drafts, and exchange banks buy those drafts to procure money in India from the public treasuries to finance exports. With funds thus obtained, these banks purchase bills of exchange drawn on foreign importers of Indian produce and recover their money in England, which is once more used to buy Council drafts. The rate for the telegraphic transfers is, of course, a little higher than that for bills and the advantage of the T. T. is that money is immediately available to buyers in India. The rate of exchange depends upon the demand for Council drafts which is regulated by the course of Indian exports. If these last are heavy, the exchange rises, though it must be below the gold point. But when, owing to famine or other causes, Indian exports fall off, there is no demand for Councils, and there is a demand for remittance in the opposite direction. Importers of foreign goods into India, cannot obtain bills on London and as the Indian currency consists mainly of silver, Government is called upon to supply gold for remittance purposes as they have to discharge the obligation of supporting exchange. Government, therefore, sells drafts on London or 'reverse Councils', as they are called, and the Secretary of State meets them from the funds that are at his disposal.

Experience gained in 1908-09 and in the years of the War, showed how an adverse balance of trade could be met by the release of gold in India and more particularly by the sale of sterling drafts. In the course of the years 1916-17 and 1917-18, the balances of the Government of India were so depleted by the expenditure they incurred in this country on behalf of His Majesty's Government that the Secretary of State had to restrict his sale of Council bills. Funds could not then be brought out to India and gold from the currency reserve had to be released to meet the demand for currency which was not satisfied with the extraordinarily large issues of rupees

and notes which had been made. The history of the exchange transactions of 1908-09 and of the years of War is very instructive.

Towards the close of 1907 owing to a financial crisis in America and a failure of rains in this country, the money market became tight and the Secretary of State could find no buyers for his Council drafts except at abnormally low rates of interest. On the 6th November, tenders dropped to 1s. 3  $\frac{1}{4}$  d. and the exchange steadily went down to 1s. 3 d. These quotations were below the point at which it becomes profitable to export sovereigns from India. Government hesitated as to the course of action to be taken and at first released small quantities of gold in exchange for rupees, but as the stock of gold was limited they had to sell sterling drafts to the extent of £ 8 millions till the crisis was over and exchange again became normal. A similar procedure had to be followed in 1914-15 and in 1915-16 when also reverse councils were sold in India for many weeks. The following figures will be found instructive:—

*Sales of bills and transfers.*

I

*Sales by the Secretary of State.*

1906-07 ...	£ 33,418,716	at an average rate of 1 s. 4-084 d. the rupee.	
1907-08 ...	£ 15,307,068	" " 1 s. 4-089 d.	"
1908-09 ...	£ 14,144,545	" " 1 s. 3-9305 d.	"
1909-10 ...	£ 17,444,609	" " 1 s. 4-041 d.	"
1910-11 ...	£ 26,812,866	" " 1 s. 4-061 d.	"
1911-12 ...	£ 27,058,550	" " 1 s. 4-883 d.	"
1912-13 ...	£ 25,743,710	" " 1 s. 4-058 d.	"
1913-14 ...	£ 31,800,827	" " 1 s. 4-070 d.	"
1914-15 ...	£ 7,794,002	" " 1 s. 4-004 d.	"
1915-16 ...	£ 20,371,460	" " 1 s. 4-088 d.	"

## II

*Sales by Government of India.*

1908-09 ... £ 8,058,000	Bills at 1 s. $3\frac{1}{2}$ d. the rupee.
1909-10 ... £ 156,000	" " "
1914-15 ... £ 8,707,000	" and Transfers. $\left\{ \begin{array}{l} \text{Bills at 1 s. } 3\frac{1}{2} \text{ d.} \\ \text{Transfers at 1 s. } 3\frac{1}{2} \text{ d.} \\ \text{and 1 s. } 3\frac{1}{2} \text{ d.} \end{array} \right.$
1915-16 ... £ 4,893,000	deferred Transfers at 2 s. $8\frac{1}{2}$ d.

The way in which remittances were made to the Secretary of State in 1916-17, throws an interesting light upon the system of exchange and financial operations of the Government of India. That Government had to spend large sums in this country on behalf of His Majesty's Government who repaid those amounts to the Secretary of State. This was tantamount to the drawing of funds by the latter by means of Council drafts. But the difficulty was that the demands of trade threatened to remain unsatisfied and gold could not be shipped to India as might ordinarily have been done. Council drafts beyond the budget calculations had, therefore, to be sold and met in this country from increased supplies of rupees. It was estimated at the beginning of the year that out of the £ 22½ million required by the Secretary of State, £ 18·6 million would be paid in London by His Majesty's Government and Council bills would be drawn upon the Indian Government to the extent of £ 3·9 million. The recoverable war expenditure, however, rose to £ 38½ million and an acute trade demand was met in London by the sale of Council bills to the extent of £ 33 million! The total amount thus transferred to London went up to £ 71½ million. The two-fold strain of increasing war outlay in India, coinciding with a strong trade demand for remittance to India, was met in three ways: (1) Large Imperial and Provincial surpluses enabled Government to supply £ 33 million from treasury balances; (2) The equivalent of £ 19½ million new rupee currency was made possible by the purchase of silver in England; and (3) £ 19 million

were withdrawn from the Currency Reserve and were invested in England.

Of the £ 71½ million thus received by him, the Secretary of State was to use £ 21·7 million for his ordinary expenditure, £ 16·2 million were spent on the purchase of silver and £ 19 million were invested in the Paper Currency Reserve. £ 4·3 million, mainly the profit on rupee coinage, was invested on behalf of the Gold Standard Reserve and the balance left, was devoted to the discharge of debt. These operations may be exhibited in tabular form thus :—

<i>Government of India.</i>	<i>Secretary of State for India.</i>
Million £.	Million £.
Treasury Balances ... 33	Ordinary Home Charges ... 21·7
R. pee Coinage ... 19½	Purchase of Silver ... 16·2
Paper Currency Reserve... 19	Investment in Paper Currency Reserve ... 19
Total ... 71½	Investment in Gold Standard Reserve ... 4·3
	Repayment of Debt ... 10·3
	Total ... 71·5

**149. Remittance Liabilities.**—The Government of India was hard to put it to devise means to supply money in this country to defray war expenditure on behalf of His Majesty's Government and to meet the Councils sold by the Secretary of State for the convenience of trade. These liabilities of the Indian Government reached £ 111 millions in 1917-18, and of this amount £ 66 million represented outlay on behalf of the Imperial Government. The huge demand was met by provision of money out of the proceeds of the war loan and of treasury bills, out of surplus revenue and fresh coinage of silver and by investment of part of paper currency reserve in London.

The liabilities were estimated to amount to £ 78 million. In the year 1918-19, without taking into account the Secretary of State's drawings which must amount to



a large sum. Of this, no less than £ 70½ million represented the Government of India's recoverable war expenditure for His Majesty's Government. This demand would be met from a variety of sources like those indicated above.

While on the one side the Government in this country experiences great difficulty in providing funds for defraying war expenditure on behalf of the Imperial Government, on the other side, the Secretary of State's treasury is flooded with money recovered from His Majesty's Government and obtained from the sale of council drafts. Out of the funds thus coming into his hands, the Secretary of State makes investments on behalf of the Paper Currency Reserve and pays a part in lieu of India's war contribution of £ 100 million. A special reserve of £ 20 million is like-wise going to be set apart, to be drawn upon for capital outlay in the future.

The effect of the large remittances to England has been the transference of Indian funds on a large scale to that country. Such transference took place regularly before the war. But the expansion of our paper currency and the growth of the gold standard reserve fund have facilitated the remittance of funds to England and their investment there on an unprecedented scale. The total amount of the investment of Indian funds in England has already gone up to Rs. 150 crores. India has thus materially assisted the Imperial Government by lending its funds and by relieving its liabilities in connection with war expenditure in this country.\*

**150. Regulation of Council Drawings.**—Usually the Secretary of State sells a larger amount of council drafts than are necessary to yield him the funds that are required to meet the 'home charges.' He draws up to the utmost limit of the cash balances in this country and also from the Paper Currency and Gold Standard Reserves.

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\* See Sir William Meyer's speech in introducing the Financial Statement for 1918-19.

It is contended that requirements of trade have got to be met and the demand for Council drafts must be satisfied to the full limit. If this is not done and the sale of Council bills was restricted to the amount of home charges, sovereigns would have to be imported into India only to be shipped back for the purchase of silver. The Secretary of State, therefore, sold freely and accumulated large amounts of Indian gold in London. These funds were partly invested in securities or lent for short periods to banks and were partly used for repayment of debt.

This policy of drawing away Indian gold beyond the requirements of the home charges, was strongly criticised in the press here and in England and "an Indian correspondent" wrote in the *London Times* in November, 1912 as follows :—

"It means that many millions sterling of Indian money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State ; capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint stock banks trading on inadequate gold reserves....There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London. But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India, and it is often cheaper for them to buy bills than move bullion. They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint stock banks who realise the inadequacy of the London gold reserves and are not averse to protecting them at the expense of the India tax-payer."

The India Office met these charges by pleading certain exceptional circumstances as the cause of the accumulation of large balances in London and by defending its

system of the sale of bills on the ground of convenience and economy. The Chamberlain Commission held that though "the India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the London balance was in no need of replenishment," it could not recommend any restriction of "the absolute discretion of the Secretary of State as to the amounts of drafts sold or the rate at which they are sold, provided that it is within the gold points." The Commission, however, distinctly stated that general public interests ought not to be subordinated to the demands of trade.

It is necessary to point out here that India's monies, its revenues, reserves and treasury balances, which are located partly in this country and partly in London, constitute one national fund, and two distinct accounts *viz.* the revenue account and the capital account are kept, the first dealing with the current income and expenditure of Government and the second with capital transactions. The opening balance which the Secretary of State and the Government of India must have at the beginning of the year is estimated at 6 crores of rupees in London and 18 crores in India. All monies, from whatever source they come, go into these balances, and payments are made out of them. An estimate is formed early in the year as to the position of the balances, the amount that must be borrowed here and in London for financing the public works programme and the repayment of temporary and permanent debt and the funds that the Secretary of State may draw from India by the sale of Council drafts. This estimate is rarely adhered to and the ways and means programme is modified in the course of the year, larger sums being drawn from India than those estimated. Thus during the five years 1901-02 to 1905-06, about 50 crores of rupees were drawn in excess of the budget provision, and 63 crores was the excess during the four years 1909-10 to 1912-13. (There was a deficit of about 10 crores

in 1907-08 and 1908-09 owing to failure of the monsoon and a monetary crisis in America.)

**151. Rate of Council Drafts.**—The actual distribution of Council drawings over the twelve months of the year, is regulated as follows.—

“The Indian year, as is well known, is divided broadly into two seasons: the busy season, extending roughly from the 1st October to the end of March, and the dull season, extending from about the beginning of April to about the end of September. Thus the financial year begins with the dull season, during which the demand for the Secretary of State's bills as a means of remittance of funds by the public from London to India is less strong than during the autumn and winter.”\*

Council drafts can, of course, be sold on advantageous terms during the busy season, but monsoon conditions and the course of export trade, can not be anticipated, and the Secretary of State sells his drafts in both the seasons, as he wants funds to meet various obligations during the first as well as the second half of the financial year. The gold value of the rupee has been fixed by law and as the Secretary of State for India has bills of exchange worth crores to offer annually to draw funds to London, he is in a position to fix the rate of the Indian exchange, of course, within the obvious limits. The proceeds of the council bills sold are devoted to (1) current outgoings, (2) transfer to Currency and Gold Standard Reserves, if bills have been met in India out of these reserves, (3) repayment of debt, temporary and permanent, and (4) avoidances of debt.

We are not directly concerned here with Government balances and borrowing operations. It will be sufficient to remark that for the capital programme of each year, loans are floated in London and in India, and the larger the

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\* Chamberlain Commission's Report, Appendix VII.

amount the Secretary of State can draw, the smaller will be his borrowings in the London market. How the drawings by means of Council drafts are distributed over the year in a normal year and may be disturbed in an abnormal year when 'reverse councils' have to be sold in India, will be clear from the following tables:—

In lakhs of rupees			
	1912-13	1913-14	1916-17
April ... ..	2,72	3,92	1,80
May ... ..	2,83	83	2,95
June ... ..	2,09	1,50	1,39
July ... ..	2,82	1,31	120
August ... ..	2,01	1,70	1,54
September ... ..	2,22	4,09	1,49
October ... ..	3,53	6,12	4,14
November ... ..	3,20	4,11	10,59
December ... ..	4,81	5,90	8,45
January ... ..	5,37	6,80	5,94
February ... ..	4,41	4,91	4,67
March ... ..	2,49	3,41	4,88
	38,50	46,60	49,04

Month. .	Sterling transfers on London ( in thousands of pounds. )	Council bills and telegraphic trans- fers (in lakhs of rupees.)
April ... ..	.....	1,53
May ... ..	.....	1,03
June ... ..	651	17
July ... ..	3,377	8
August ... ..	815	23
September ... ..	50	2,17
October ... ..	.....	2,25
November ... ..	.....	2,02
December ... ..	.....	3,28
January ... ..	.....	5,26
February ... ..	.....	6,02
March ... ..	.....	6,33
Total...	4,893	30,37

The financial year 1915-16 opened with a weak exchange and small quantities of bills were sold in the first two months. In the next three months the sale practically ceased and sterling transfers had to be sold on London. In April, tenders had been accepted by the Secretary of State at ls. 3½d. for bills and the rate in May fluctuated between ls. 3½d. and ls. 4½d. The exchange steadily rose to ls. 3¾d. towards the close of August and to ls. 4d. in December. Sterling drafts were sold by the Government of India at ls. 3¾d. per rupee. In the year 1916-17 the exchange ruled high. As we have already explained, the Government of India had to spend a very large amount for His Majesty's Government who repaid the amount in London to the Secretary of State. It was difficult, with the depleted treasury balances in India, to meet Council drafts for which demand was exceptionally heavy. As a result, exchange went up, those desiring to make remittances to this country having to pay more pence than usual while a rupee paid down in India could buy a larger amount of pence in London.

**152. Government and Exchange.**—We have shown above how exchange between two countries is expressed and indicated what part the India Office plays in regulating the Indian exchange. The rate of foreign exchange is ordinarily the relation the standard coin of a country bears towards that of others. In countries where gold is adopted as the measure of value for exchange with other countries and the internal demand for currency is met by silver tokens or paper, the relation of the national currency with gold is fixed by Government. The experiment of such a system of a gold exchange standard having proved successful in India, it has been adopted in Mexico, Philippines and Porto Rico.

Under the ordinary system of exchange the rate fluctuates between the 'gold points' and is regulated by

the relation between the demand for and supply of bills of exchange or the import and export of commodities. The whole business is managed by banking houses and the Government has little to do with it. In countries where the gold exchange standard prevails, it is otherwise. There the Government is bound to maintain the artificial rate of exchange it has fixed between gold and the token currency.

"The essential principle upon which the exchange standard has been established is that the value of money is governed by the law of supply and demand. So long as supply was indefinite and excessive, as under the system of the free coinage of silver, there was no way of preventing safely and effectively the decline in the gold value of the coins to the bullion value of their silver contents. The moment, however, that Government undertook to limit the supply of coins to the demand for them, it took an important step to separate their value from that of their bullion contents and to give them a value based on a demand for them as money signs required for carrying on exchanges."<sup>\*</sup>

The Government undertakes, under this scheme, to supply currency at both ends and thus to maintain the parity of gold and the tokens. It maintains exchange funds inside and outside the country and sells drafts both ways as necessity requires. The foreign importer of Indian goods will prefer council drafts to gold remittances because the former are cheap. The Indian exporter is able to negotiate his bill at a trifle less than the fixed rate of exchange and the Indian importer of foreign goods buys the sterling drafts by paying a little more than that rate. As normally India has a favourable balance of trade, little difficulty is experienced in maintaining the legal rate of exchange.

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<sup>\*</sup> C. A. Phillips: *Readings in Money and Banking*.

**153. Abnormal Rise in Exchange.**—The exchange standard is, however, threatened when Government is not in a position to maintain the artificial value of token coins in times of trade depression or financial difficulties. The difficulties experienced by the Indian Government in 1907-08 and on the outbreak of the War, have been already described.\* Danger may assail the exchange system at either end. On account of a large excess of Indian exports over imports, the demand for the Indian currency rises, the exchange rate goes up and, owing to monetary stringency, sufficient quantities of council drafts cannot be sold. Or, owing to a diminution in exports, importers do not get an adequate quantity of sterling drafts and exchange falls, the rupee being able to purchase a smaller number of pence.

In the second case, rupees seek gold but do not get it at a reasonable price and Government, which is bound to maintain the legal rate of exchange, sells drafts on London for rupees offered to it. The first case is not comparatively so inconvenient as under it Government has only to coin fresh rupees or issue currency notes. But there is another contingency which was little contemplated in the discussions of the Indian currency system which were carried on for two generations. The problem to be faced was all along the continuous fall in the price of silver and the consequent continuous decline in the gold value of the rupee. But few dreamt that a time would come when the value of the silver contents of the token rupee would go above the face or legal value.

But the unexpected did at last happen. In 1916-17, there was an abnormally large balance of trade in favour of India, the sellers of exchange greatly outnumbered the buyers, and as there was little import of gold to fill up the gap, the former had to accept any price that was

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\* See above, page 261.



offered for their bills. In January 1917, the exchange rose to heights that had never been reached since the sterling value of the rupee was fixed. An attempt was made by the exchange banks to arrive at an agreement not to sell telegraphic transfers on London above 1s. 4½d., but it failed and exchange transactions are reported to have been put through at as high a rate as 1s. 6d.

The soaring exchange was brought down to 1s. 4½d. by the intervention of the Secretary of State who induced the London offices of the Exchange Banks to fix their Indian branches to a rate of 1s. 4½d. for T. T.s on London. Whatever resources were available in India, had to be first devoted to the financing of exports of Imperial importance in view of the prosecution of the war. The Exchange Banks promised to give prominence to such exports and loyally carried out their undertaking. The refusal of the Banks to buy bills without full cover\* caused great inconvenience to export merchants but the need of financing exports of urgent national importance was paramount and other interests were subordinate.

In the crisis of 1907 when our currency system was subjected to a severe trial, the country suffered from a low exchange, and sterling drafts on London were sold as had to be done again in 1915. But now the exchange soared high and the 'large quantities of rupees and notes supplied in 1917 were not adequate to the demand. In the one case it was plethora of Indian currency and in the other, insufficiency of it, which upset the exchange organization. We have shown on a previous page how heavy has been the outlay of money which the Government of India has had to undertake on behalf of the Imperial Government. The Indian Government did

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\* The security that sterling drafts would be purchased from them of corresponding value so that they may again place themselves in funds exhausted by their purchase of bills from exporters.

its best, in the face of these requirements, to provide an adequate supply of currency. The active circulation of currency notes advanced from 51 to 82 crores in the four years of the period. The net issues of rupees in 1916-17 amounted to 35 crores and in 1917-18, to more than 24 crores (in addition to 8 crores of sovereigns).

**154. Dear Silver and Exchange.**—To add to these difficulties, the price of silver went up to an unexpected height. It was nearly doubled.† The white metal which was so long neglected and contemptuously treated had its revenge. Silver was in demand everywhere for currency purposes. Each nation conserved its gold and multiplied paper currency. The daily expenditure of millions for the conduct of the war caused a tremendous expansion of currency and silver had its turn. The metallic value of the rupee now exceeded its nominal value and the Government had to issue ordinances against the melting of the coins and the export of silver. It also controlled and acquired the imports of silver and gold. The Secretary of State reduced the amount of the Council drafts to 80 and to 60 lakhs per week in view of the monetary stringency in India.

The advance in the price of silver necessitated alteration in the rate at which the Secretary of State used to sell rupees, viz., the Indian exchange. Owing to the high\* price of silver, the rupee was no longer a token: its intrinsic value was higher than its face value. Instead of yielding a profit, the issue of rupees caused a loss, if the Councils were sold at the old fixed rate. The question here arose, whether Government was not expected, under its exchange standard system, to maintain the rupee at the 16d. level and to make up the loss by drawing upon the Gold Reserve. The fund built up out of the profits of rupee coinage and expressly set aside for the maintenance of

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\* Silver prices which stood at an average of 37d. for ounces in April 1917, rose to 51d. in September and to 52 towards the end of that month.

exchange, it was contended, was the source from which the loss should be made good.

The Finance Member met this contention with the plea that the Gold Reserve was never intended to serve the purpose for which it was proposed it should be used, that charging the loss caused by the high price of silver to that Reserve would entail indefinite responsibilities and liabilities and that whatever burden exporters had to bear was counterbalanced by the advanced prices of Indian produce. He defended the Secretary of State's action in enhancing the rate of exchange to 17d. on the ground that he could not sell his drafts at a price which meant a loss of about one penny for every rupee that was supplied.\* It was a step most reluctantly taken but, all things considered, it was inevitable and perfectly reasonable.

The disturbance caused by the titanic struggle, to trade and industries, has affected the exchanges all the world over. The normal balance of trade in the case of some of the belligerent countries has been violently upset and England has been able to maintain its exchange with the United States of America only by means of large borrowings in that country. Compared to the fluctuations and uncertainties of the exchanges of other countries, the disturbance which the Indian exchange has suffered, must be pronounced as slight, and there is no doubt that on the whole, the financial and currency machinery of India has been most skilfully handled.

**155. Course of Exchange.** —We need not repeat what we have stated above with respect to the methods of expressing the rate of exchange. Here we give only typical illustrations of those methods which will also serve to demonstrate how the exchanges all the world over have been violently disturbed by the War. The prices paid in one country for definite amounts of foreign

\* Sir William Meyer's speech introducing the Financial Statement for 1918-19.

# COURSE OF EXCHANGE.

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currencies are quoted daily in newspapers. We take the following from the *Economist* of December 8, 1917 :—

## Foreign Rates of Exchange on London.

		Rate Dec. 7th 1917.	Rate Nov. 30th 1917.	Rate Dec. 8th 1916.	Usanc.	Par.
Paris ...	francs to £ 1	27·22-24	27·25-26	27·79½ 80½	Cheques	25·82½
Amsterdam	florin to £ 1	10·80-85	10 76-80	11·65½-66½	"	12·107
Petrograd	roubles to £ 10	357-362	365-370	160-163½	sight	94·57
Italy ...	lire to £ 1	39 45-75	39 50-70	32·25-35	"	25·28½
New York	dollars to £ 1	4·76 <sup>10</sup> / <sub>10</sub> - <sup>7</sup> / <sub>10</sub>	4 76 <sup>5</sup> / <sub>10</sub> - <sup>7</sup> / <sub>10</sub>	4·76 <sup>10</sup> / <sub>10</sub> - <sup>7</sup> / <sub>10</sub>	Cable	4·86½
Bombay ...	scr. to rupee	1s. 5-5 <sup>1</sup> / <sub>10</sub> d.	1s. 5-5 <sup>1</sup> / <sub>10</sub> d.	1s. 4 <sup>3</sup> / <sub>8</sub> -4 <sup>7</sup> / <sub>8</sub>	T. T.	1s. 4d.

London course of Exchange, December 6th, 1917.

### London on.

New York	...	(Cable)	4·76½
"	...	(Demand)	4·77½
Paris	...	(Cable)	27·21
"	...	(3 months)	27·60
Petrograd	...	(Cable)	362
"	...	(3 months)	Nominal
Amsterdam	...	(Cable)	10·72
"	...	(3 months)	10·90

A typical Indian course of exchange will be as follows :—

	(March 13, 1918).	(March, 1917).
Bank Telegraphic Transfer	1 s. 4 <sup>3</sup> / <sub>8</sub> d.	1 s. 4 <sup>7</sup> / <sub>8</sub> d.
Bank Demand Drafts	1 s. 5 <sup>3</sup> / <sub>8</sub> d.	1 s. 4 <sup>3</sup> / <sub>8</sub> d.
3 Month's sight Credits	1 s. 5 <sup>1</sup> / <sub>8</sub>	1 s. 4 <sup>1</sup> / <sub>8</sub> to 1 <sup>1</sup> / <sub>8</sub> d.
Bank Demand on France	192 fr.	188 fr.
	(for Rs. 100).	
3 Months' sight France	198½ "	194½ fr.
30 Days' sight Hongkong	218 Rs.	165½ Rs.
	(for 100 dollars).	
30 " " Shanghai	303 Rs.	240 ¼ "
	(for 100 taels).	
60 " " Japan	144½ Rs.	150 to 151 Rs.
	(for 100 yen).	
Bank D. D. on New York	Rs. 297 (for \$ 100), 310½ Rs	

**156. Summary.**—Imports of a country are paid by the exports and *vice versa* and the balance must be settled by a remittance of gold or silver. The movement of the precious metals for the liquidation of the mutual debts of countries, is avoided by the use of bills of exchange which are orders issued by creditors to debtors for payment to parties mentioned. Like an ordinary commodity, these bills can be sold and purchased in the market and those who have to make remittances abroad may buy the orders and send them to their creditors to be realised from the persons on whom the bills are drawn. Bills on London are every where available and in demand, and they are a favourite means of making payments abroad.

The rate of exchange shows the reciprocal relation of the currencies of different countries and may be expressed in two ways. We may state either the amount of foreign money which a unit of our currency will buy or the amount of our own money which will be required to obtain a unit of foreign currency. London rates of exchange on foreign countries are generally expressed in foreign currencies and foreign exchange rates upon London also are similarly expressed, with a few exceptions. The Indian exchange on London and the London exchange on India are expressed in pence as the New York exchange is expressed in dollars from both sides.

The rate of exchange fluctuates between the gold points, *vis.* the points at which it is more profitable to import or export gold rather than use bills of exchange for remittance purposes. Fluctuations thus limited, are regulated by demand and supply. If there is a large quantity of bills available, those who want to buy them for making remittances abroad will get them for a lower price and if the demand exceeds the supply a higher price must be paid. Exchange Banks carry on this business of buying and selling bills in India but the exchange problem has a peculiar importance in this country on account of the

practice of selling bills on India followed by the Government during the last hundred years.

India has normally a favourable balance of trade, that is, there is an excess of Indian exports over imports. The excess represents the home charges and the remittances of earnings, profits, and commissions of firms and individuals. On both sides of the national account there are several invisible items which are not recorded in customs statistics. The excess of the value of exports over that of the imports, is paid to this country either by means of council drafts or the remittance of the precious metals. If the excess is not as large as one would expect it to be in view of the remittances of various kinds which have annually to be made abroad, it shows that a part of the amount is retained in this country as capital for investment in industries and trade. The excess of Indian exports makes foreign countries our debtors, and thus a keen demand arises for remittances to this country. This fact enables the Government of India conveniently to make payment to the Secretary of State for the disbursements he makes in London on its behalf. We have a gold exchange standard and the Government has to take steps to maintain the exchange at the fixed rate of 16d. the rupee. This feature of our currency system, joined to the gold obligations of Government, imparts a peculiar interest to the problem of Indian exchange.

The Secretary of State has to draw funds to London for his expenditure there on behalf of the Government of India and the bills and telegraphic transfers he sells, are purchased by those who want to make remittances to this country for goods imported or by banks which want rupees and notes for their financial operations. So long as the mints in India were open to the coinage of silver presented by the public, the balance of trade in favour of India was liquidated by the import of silver, and exchange was determined by the gold value of the white metal. Till the

year 1893 exchange steadily declined, compelling the Indian Government to raise more rupees by means of taxation for the payment of home charges in gold in London. Since the exchange was fixed at 16d. per rupee, only in years of financial stress caused by scarcity or otherwise, has Government been compelled to cease selling drafts on India and to offer sterling drafts on London. It is profitable to banks to import funds into India by purchasing bills in London rather than by shipping sovereigns and then getting rupees for them from the Government, and therefore the Secretary of State has been selling his drafts to a much larger amount than is needed for his current expenses.

The Government of India pay for these bills, when presented, from their balances and thus their remittance for home charges is effected. By means of the Councils, the Gold Standard Reserve and a large portion of the Currency Reserve, have been drawn to London and there invested in British securities. A part of the drawings is used for purchasing silver for the mints in India. There is a heavy demand for drafts on India during the second half of the financial year, which is the busy season when crops are moved to the ports, and the rate of exchange is then higher than in the first half of the year. The war shattered exchanges all the world over and the assistance India gave to the British Empire compelled the Secretary of State to raise the Indian exchange above the standard rate. Funds to the extent of Rs. 150 crores have been drawn from India to London in the course of exchange transactions in four years.

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## Chapter XII.

### BANKING AND CREDIT.

#### REFERENCES.

Tauszig: *Principles of Economics*; Pierson: *Principles of Economics*; C. A. Phillips: *Readings in Money and Banking*; Harlsey Withers: *The Meaning of Money*; J. M. Keynes: *Indian Currency and Finance*; *Report of the Chamberlain Commission*; *Statistical Tables relating to Banks in India for 1917*, published by the Department of Statistics, India; *Statistics relating to Joint Stock Companies in British India and Mysore*; Keatinge: *Rural Economy in the Bombay Deccan*; D. E. Wacha: *Agricultural Banks in India*; *Evidence Recorded by the Industries Commission*.

**157. Indigenous Banking.**—Even before the advent of modern joint stock banking there were in this country, numerous banking firms and bankers who carried on business on an extensive scale. Money lending was and is done by numerous persons of every caste and class in towns and villages, all over the country. As distinguished from these money lenders, the bankers took money on deposit, made loans and issued drafts or 'hundies,' and they have always occupied a high status in society. In old times governments borrowed largely from the bankers who financed military campaigns. The Peshwas, for instance, were heavily indebted to them and several banking houses enjoyed great social reputation for the extent of their transactions and the honesty of their dealings.

English banking, which has now assumed a vast magnitude, also began in this humble way. When the prejudice against usury disappeared, the people first to take advantage of the favourable situation, were the goldsmiths.

"As they had valuable property of their own to guard, people were inclined to think that what would



be trusted to them was safe. Accordingly the practice of depositing money or bullion with the goldsmiths became a common one, the more so after 1640, when Charles I, then in great straits for money, had seized the bullion of private merchants left for safe keeping in the Tower..... When the goldsmiths thus obtained deposits, they naturally were ready to lend at interest. Cromwell borrowed from them on the security of the taxes and paid them back when the taxes came in; Charles II continued the plan, paying the goldsmiths 8 per cent. for what they advanced.”\*

The small bankers took deposits and allowed interest upon them, gave loans on the security of jewellery pledged with them and purchased and sold ornaments. This business is being done to-day extensively in villages and small towns all over India, where modern banking is unknown. The banking houses of a higher status have dealings on a much larger scale. They finance internal trade and remit funds from one place to another for their customers and discount the hundies of small producers and dealers. In spite of the rapid progress joint stock banking has made during the last generation, these indigenous banking houses play an extremely important part in the internal finance of the country. They accommodate small traders and producers whom the big banks cannot reach. Their ‘hundi’ draft is easily available and through it remittance can be most conveniently effected in the absence of other banking facilities.

Mr. Findlay Shirras thus describes† the indigenous bankers:—

“Before the British era, trade was entirely financed by *banias*, who combined money lending and finance with trade. Throughout the length and breadth of India these *banias* undertook the financing of agricultural operations. They were chiefly Mar-

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\* Townsend Warner : *Land-marks in English Industrial History*.

† Report of a lecture delivered in Calcutta in 1914.

waris from Marwar, Chettias from Southern India, and Bhattias and Parsees in Bombay and Gujarat. To-day the money-lender or money changer was still in a flourishing condition. The larger Indian bankers and shroffs still continued to do a large part of the internal banking business. They were the depositors of much of the money wealth of the villages or districts in which they resided and they were also engaged in exchange operations, as well as trading on their own account. They used hundis or bills which were drawn up in *Mahajani* or a written character peculiar to bankers, and these were usually illegible to any one outside their class. A dishonoured *hundi* was an event of rare occurrence with them. *Hundis*, despite the increase in joint stock banking, were not decreasing but increasing, and the circulation of *hundis* was the most perfect portion of the purely Indian system. The *bania* class was one to which India was greatly indebted for financing agriculturists, and removing products from the growing to the consuming districts and distributing goods of all kinds all over India. Joint stock banks were not in any way a hindrance to their trade; in fact they relieved them of much trouble and risk."

**158. Rise of Modern Banking.**—Beside these (1) indigenous banking houses and bankers, there are in India to-day, (2) the three Presidency Banks of Bengal, Bombay and Madras, (3) the Exchange Banks doing business in this country as well as in others, and (4) the Indian joint stock banks.

"The European system of banking was introduced into India by the Agency Houses of Calcutta. These were not merely merchants and agents but also bankers who did business with the merchant princes in India, planters and the civil and military services. They possessed a note circulation which was extremely beneficial to them. After the passing of the Act of 1813 which gave greater inducements to Europeans to settle in India, there was a considerable extension of

banking in connection with the Agency Houses but the great commercial crisis of 1829-30 put an end to almost all these Houses."<sup>\*</sup>

The foreign trade of the country in the early part of the last century, was comparatively small and internal exchange was facilitated by indigenous bankers. As trade, however, slowly expanded, European merchants and others directly interested in it, felt the necessity of having banking arrangements of western type in their midst. Like the mercantile community, Government also experienced difficulty in carrying on its financial operations without the assistance of a well conducted modern bank. Under these circumstances the Bank of Bengal came into being and received its Charter in 1809. Of its capital which was then £ 500,000 the State contributed £ 100,000 and Government took its share in the direction of the affairs of the Bank. Indians came steadily to be associated more and more with the foreign trade of the country and, therefore, with the business of the Presidency Banks.

"The Presidency Bank of Bengal was opened in 1806 and received its charter of incorporation from the East India Company in 1809. The first Bank of Bombay (it went into liquidation in 1868 and a new one was formed in the same year) was established under a similar charter in 1840, and the Bank of Madras in 1843. The establishment of these Banks in the other Presidencies put an end to the possibility that the Bank of Bengal might become a Bank for all India. The Presidency Banks had at first, a semi-official character. At the foundation of the Bank of Bengal, the East India Company contributed one-fifth (the proportion became smaller subsequently) of the capital and appointed three of the directors. Up to the time of the Mutiny the office of Secretary and Treasurer was held by a covenanted civilian."<sup>†</sup>

<sup>\*</sup> Mr. Findlay Shirras : Report of a lecture delivered in Calcutta in 1914.

<sup>†</sup> J. M. Keynes : Indian Currency and Finance.

**159. The Presidency Banks.**—The relations of the Government of India and the Presidency Banks are regulated by the Presidency Banks Act of 1876 which imposes certain definite restrictions upon their business operations while it concedes to them some material and moral advantages also. Before that date the agreement with the Banks compelled the Government to place all the cash balances belonging to them in the hands of the Banks with the result that there was a serious danger of Government's money not being available when it was urgently required. In a despatch to the Secretary of State, dated 30th June, 1874, the Government of India wrote:—

“The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of those balances, had so employed them that they were practically locked up; for had we insisted on withdrawing them more suddenly we should have done so in the face of a warning that we should produce a commercial crisis, and therefore for a time the Government balances at Bombay were useless for the purposes of the Government.....We are of opinion that a Government subject to the contingencies to which the Government of India is exposed, ought not to be without a reserve and that this reserve should be in its own hands.”

The Government was inclined to dissolve its connection with the Banks, but preferably it proposed

“To make a change in the agreements with the banks, so that instead of giving them the right to hold all the Government balances, the stipulation may be confined to engaging to pay them interest when our balances are reduced below certain amounts.”

In his reply, the Secretary of State (Lord Salisbury) gave his assent to the proposal of the Government of India about establishing an independent treasury system and leaving with the Presidency Banks certain minimum balances without interest and imposing by law specific

restrictions upon their business operations. The Presidency Banks Act of 1876 laid down restrictions as to the qualifications and number of directors, the kind of business that they could and could not transact, the territorial limits of their jurisdiction and so forth. The Banks have tried to get some of these restrictions removed as needless, and wanted liberty to deal in certain securities which were not allowed by the Act, *e. g.*, securities of State-aided Railways and of District Boards. They also wanted to be empowered to borrow outside India so that they might have access to the great store of banking capital available in London.

This and other matters connected with the powers and resources of the Presidency Banks, were topics of prolonged discussion among the parties concerned. Strong objection was taken to these Banks being allowed to pledge securities and take deposits in England and thus raise funds there. The Exchange Banks vehemently opposed the suggestions that the Presidency Banks should be allowed, when the Bank rate in India was 6 per cent. or higher, to borrow in London, that they should be permitted to deal in foreign bills under certain conditions and that they should be allowed to draw sterling drafts on London for the home remittances of their customers subject to a limit of £ 200 in each case. One of the Exchange Banks, the Mercantile Bank of India, wrote to the Secretary of State :—

"It would be an anomaly in State banking to find the Presidency Banks of India, which depend for their prestige and resources so largely on their State connection, turning their attention and their resources from the object of their existence—the facilitating the internal trade and requirements of India (a sufficiently wide field one would imagine), to embark in operations of foreign exchange. It would further, be a serious matter for the existing Exchange Banks, and very

unfair to them if these State Banks, backed by their State support and the large amounts of public funds placed at their disposal by the State free of interest, should be authorised to compete keenly, and with all the power that their privileged position gives them, with those institutions which have hitherto conducted that business to the satisfaction of the mercantile community."

The other Exchange Banks wrote in the same strain and there was a lively debate between them and the Presidency Banks. The latter attempted to show that the apprehensions of the Exchange Banks with regard to unfair competition being set up in exchange transactions against them, were baseless. The proposal of the Presidency Banks was favoured by the Government of India, but the Secretary of State was strongly impressed by the contention of the Exchange Banks that their interests would be injured by the proposed changes and declined to sanction even a moderate concession to the Presidency Banks viz. 'allowing them to draw sterling bills on London for the purpose of the remittances of their customers subject to a limit of 200 £ in any one month on behalf of any one customer.' The discussion was brought to an end on 26th September, 1906, with a telegram from the Secretary of State in reply to one from the Government of India asking permission for the above amendment of the Act, stating: 'Your telegram dated 15th September, Presidency Banks. I regret that I cannot accept your proposal.'

**160. Their Business.**—We shall presently deal with the question of monetary stringency and a high bank rate prevailing in India during the busy season, which was involved in the above discussion. It is to be noted here that the Presidency Banks are three powerful joint stock banks having special relations with Government and carrying on the ordinary banking business

under certain well defined limitations. They lead in financing the internal trade of the country, and the ordinary joint stock banks follow them at a distance. They take deposits and lend on security, and discount, buy and sell bills of exchange and other negotiable securities payable in India or Ceylon. They cannot borrow money outside India, nor can they deal in sterling bills. The conditions on which they may give loans are strictly laid down by law. They perform certain services for Government and receive remuneration for it. Government holds no shares in the Banks and is not represented on the directorates. It, however, keeps certain minimum amounts free of interest with the head offices of the Banks, and if the public deposits fall below the stipulated limit, interest is paid on the amount by which they fall short. Usually Government keeps larger deposits with the Banks than they are expected, though not bound, to do.

"Where a branch of a Presidency Bank exists, part of the Government balance is deposited in it. Similarly a part of the Government balances held at Calcutta, Madras and Bombay, is deposited at the head offices of the three Presidency Banks. The relations between the Government and the Presidency Banks in respect of the holding of balances are partly regulated by agreements with the three banks which were last revised in 1898. The agreements provide that the Banks are to transact general business for the Government at their head offices and certain branches; that they are to receive certain remuneration; that the Government is not bound to retain at the Banks any particular sum; but that if its balance at the Head Office of any of the three Banks falls on any day below a specified minimum, it is to pay to the Bank interest "at the lowest rate chargeable on such day by the said Bank to the public for loans recoverable on demand." The remuneration of the three Banks and the minimum balances that they are to

hold for the Government at their Head Offices without charging interest are as follows:—

	Remuneration per annum. £.	Amount of Balance below which interest becomes payable. £.
Bank of Bengal	2,900	233,300
Bank of Madras	800	130,000
Bank of Bombay	800	133,000

"The revision of these agreements is now under the consideration of the Government of India.

"In actual practice the Government of India is much more liberal to the Banks than is provided for in the agreements. They usually keep at the head offices of the three Banks the following amounts:—

Bank of Bengal ...	... 467,000 l. to 533,000 l.
Bank of Madras ...	... A little over 133,000 l.
Bank of Bombay...	... 267,000 l. to 333,000 l.

"On the flotation of a loan and in special cases, the amount are increased."\*

The following table shows the position of the three Presidency Banks:—

*Presidency Banks.*

	1905 Rs. (lakhs).	1914 Rs. (lakhs).	1916 <sup>*</sup> Rs. (lakhs).
Capital and Reserve	6.33	7.64	7.35
Deposits ...	25.38	45.66	49.91
Cash Balances ...	8.23	20.84	17.27

\* See Chamberlain Commission's Report, Appendix.



The comparative position of the three banks is brought out in the following table :—

		31st December 1905	31st December 1910	31st December 1914	31st December 1916
		Ra. (lakhs)	Ra. (lakhs)	Ra. (lakhs)	Ra. (lakhs)
Capital {	Bank of Bengal	2,00	2,00	2,00	2,00
	" Madras	60	60	75	75
	" Bombay	1,00	1,00	1,00	1,00
Reserve {	Bank of Bengal	1,43	1,75	2,00	2,13
	" Madras	33	51	79	58
	" Bombay	1,87	1,05	1,10	90
Government Deposits {	Bank of Bengal	1,67	1,98	2,27	2,74
	" Madras	37	72	91	1,04
	" Bombay	93	1,52	1,83	1,42
Other Deposits {	Bank of Bengal	12,04	16,09	21,61	21,44
	" Madras	3,46	5,67	7,62	9,60
	" Bombay	6,76	10,58	10,82	13,67
Cash {	Bank of Bengal	1,97	5,14	11,70	7,73
	" Madras	1,67	1,84	2,67	2,87
	" Bombay	2,39	4,36	6,47	6,68
Investments {	Bank of Bengal	1,31	3,68	6,21	7,69
	" Madras	67	85	1,34	1,63
	" Bombay	1,58	1,49	2,01	3,13

The dividend paid by these banks has always been substantial. During the three years, 1914-16, the Banks of Bengal, Bombay and Madras have paid 16, 15 and 12 per cent. respectively. Besides the head offices, the Banks have 25, 14 and 23 branches and agencies respectively.

**161. Exchange Banks.**—Now to turn to the Exchange Banks. These are big European banking concerns with enormous resources, and they carry on their operations in India and over eastern Asia. For the sake of convenience they are classified in two groups according to the extent of business done by them in India, *viz.* (1) five of them are doing a considerable portion of their business in this country and (2) the remaining

five are merely agencies of large banking corporations doing business all over the East. The following statistics will give an idea of the position of these banks in the year 1916 :—

	No. of Banks.	Paid up Capital.	Reserve and Res.	Deposits.		Cash Balances.	
				Out of India.	In India.	Out of India.	In India.
		£ 1,000	£ 1,000	£ 1,000	₹ 1,000	£ 1,000	₹ 1,000
(1) Banks doing a considerable portion of their business in India.	5	3,812	3,981	45,702	31,54,40	14,095	7,36,14
(2) Banks which are merely agencies of large banking corporations doing business all over Asia.	5	19,024	11,114	162,510	6,49,48	27,272	2,27,87
Total ...	10	22,836	15,095	208,212	38,03,88	41,367	10,14,01

These banks are institutions of a very old standing, having been founded sixty years ago, and they take deposits in India and outside and with funds thus borrowed, finance the foreign trade of the country. They are thus complementary to the Presidency Banks and the other Indian banks which confine themselves to internal trade. They purchase bills of exchange drawn by exporters of produce and discount them with London banks or realise them when they mature.\* Through their London

\* " Bills against the export trade are drawn D. A. (documents on acceptance) and D. P. (documents on payment). They are purchased by the banks' branches in India. The D. P. bills are held by their London offices until they are retired or paid at maturity. The D. A. bills as a general rule are discounted or rediscounted, immediately after acceptance. They are rediscounted with the English Joint Stock Banks and the Scotch Banks or with bill brokers financed by

offices they purchase import bills which are drawn on consignees in sterling and thus they finance import trade also. These transactions enable the banks to bring 'back the funds realised in London. As the value of India's exports normally exceeds that of the imports ; the deficiency in import bills is made good by the purchase of council bills and telegraphic transfers and the shipment of gold and silver.

Owing to stringency in the money market, in the busy season, the bank rate and the discount rate mount up very high. The exchange also rises and the Exchange Banks bring money into the country by buying the Secretary of State's drafts, and Telegraphic Transfers which enable them to receive rupees from the Government Treasuries immediately without having to wait for more than two weeks for the arrivals of the bills. The difference between the rate of interest they have to pay on their own borrowing or deposits, both in England and India, and the rates they charge in discounting sterling bills, constitutes their profit.

The deposits of the Exchange Banks have considerably increased in recent years, and while enjoying a monopoly of the finance of the export trade of the country, they participate actively in the financing of the internal commerce also. The extent to which their

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these, and especially in times of stringency with the Bank of England. These bills may be held for a time by the Indian Exchange Banks in London. This would occur when business in India was stagnant or when money was difficult to employ in London. To the extent to which the D. A. are rediscounted immediately after acceptance ( which they are in the great majority of cases ) the Indian export trade is financed not with the funds of the Exchange Banks, except from the time of the purchase of the bills in India to their arrival in London, but with the funds of the British Banks, i. e., with British and not Indian capital."—*Report on Banks in India, 1917.*

resources have increased during the past few years, will be seen from the following figures :—

		Capital and reserves. £ (1,000)	Deposits in India. £ (1,000)	Cash balances in India. £ (1,000)
1913	...	37,825	20,690	3,902
1914	...	36,972	20,098	5,596
1915	...	36,793	22,364	5,068
1916†	...	37,931	25,359	6,760

Exchange Banks compete with other banks in the country in borrowing money by means of deposits and in lending and discounting business. Their operations are not thus restricted to the financing of import and export trade. They have 45 branches in India as compared with 65 branches (including head offices) of the Presidency Banks and 68 head offices and 160 branches of the Joint Stock Banks. The Indian deposits of these banks amounted, in 1916, to £ 25,359,000, as against £ 33,276,000 of the Presidency Banks and £17,149,000, of the Indian Joint Stock Banks. As we have shown in the last Chapter, owing to the severe strain put upon the monetary resources of India, by the War, the drawings of the Secretary of State had to be curtailed, gold could not be imported and exchange rose much above the standard rate. Exchange Banks had not adequate funds to buy bills and had to sell drafts at a fixed rate.

**162. Joint Stock Banks.**—Banks of the third class, *viz.*, the Joint Stock Banks, are almost all of them, of recent origin. The growth of this type of bank has taken place during the last thirteen years. The total number of banking and loan companies registered under the Companies Act in 1914-15, was 574 and their paid up capital amounted only to Rs. 7,98,75,509. The corresponding figures for 1915-16 were 460 and Rs. 8,34,04,000. The number had remained steady for several years

† Excluding the Delhi and London Bank which was amalgamated with the Alliance Bank of India, Ltd.

and declined in 1914-15 and 1915-16 on account of the failure of many Swadeshi banks; and yet the paid up capital almost doubled in ten years. Under the heading, banking and loan companies, are included hundreds of petty banking and lending establishments, and institutions carrying on operations on a considerable scale, are very few. The number and the amount of paid up capital of these banking companies, are given below :—

Year.	Number.	Paid up capital (Rupees).
1900-01	430	3,82,84,266
1905-06	595	4,40,34,101
1906-07	567	7,31,57,416
1910-11	492	7,91,81,641
1913-14	552	7,91,51,400
1914-15	475	7,98,75,509
1915-16	460	8,34,04,000

The joint stock banks are classified, for the sake of convenience, into four groups according to the amount of their capital; and their position on 31st December, 1916, was as follows :—

	No. of Banks.	Paid up Capital.	Reserve and Rest.	Deposits.	Cash Balances.
		R(1,000)	R(1,000)	R(1,000)	R(1,000)
(1) Banks with Capital and Reserve amounting to Rs. 50,00,000 and above ...	6	1,60,48	1,37,71	19,56,15	4,88,63
(2) Banks with Capital and Reserve between Rs. 20 and 50 lakhs ...	10	1,03,37	29,49	4,55,48	97,61
(3) Banks with Capital and Reserve between Rs. 10 and 5 lakhs ...	4	21,51	6,46	59,48	17,25
Total of Banks above Rs. 5,00,000 ...	20	2,87,36	1,73,66	24,71,05	6,03,49
(4) Banks with Capital and Reserve between Rs. 5,00,000 and Rs. 10,000 ...	28	51,77	11,50	10,23	16,76
Total...	48	3,39,13	1,85,16	25,72,28	6,20,25

Joint stock banking is a plant of recent growth and has yet to drive its roots wide and deep into the soil. While the sapling was growing up vigorously, it was overtaken by a violent storm in 1913, when a number of banks collapsed. The failure of the banks caused ruin and hardship to numerous middle class and poor families, but it imparted a wholesome and much-needed lesson as it exposed the rotten condition of many of the apparently prosperous concerns. It indeed dealt a rude shock to public confidence and for a time the progress of banking was retarded. But the exposure was calculated to teach the people where the screw of banking management was loose and to ensure a slow but healthy progress of the movement.

These joint stock banks came up on the crest of the enthusiastic industrial movement which began in 1905, and banking came to be regarded as a new path into which the energies of enterprising persons might strike. The public was willing to patronise the new institutions and put their money in them. The middle class which was in the habit of saving and of depositing its savings in the Postal Savings Banks, was attracted by the tempting prospect of getting a higher rate of interest and dividend, and the new concerns had no difficulty in attracting share-holders and depositors. From 5 to 6 per cent. interest was offered for deposits fixed for a year or two years, and the banks helped many a shop-keeper and trader in his business by giving him accommodation.

**163. Bank Failures:**—Several causes combined to make the position of the joint stock banks insecure. (1) The directors of many of the concerns were men who knew little about banking business and could not and did not control the operations of the banks. (2) If some of those whose duty it was to keep a strict watch over the dealings of the banks, suffered from a lack of experience, others were too clever to deserve the responsibility en-

trusted to them. (3) Accounts were not properly kept and loans were given without sufficient security. (4) A large amount of the funds of the banks was locked up in such a way that it could not be easily realised. (5) Some of the managers went in for speculation, a species of business which such banks should have avoided, and the monies taken from depositors at a high rate of interest, were used to finance concerns whose profitableness was doubtful. (6) Dividends were often distributed among shareholders out of capital, and this fact could be concealed by a skilful manipulation of the accounts. When, therefore, one of the banks came into trouble owing to a run being made upon it by depositors, public confidence was shaken and other banks also came down. Their assets could not be easily realised and the demand of depositors could not be met.

These facts have been brought out in liquidation and other proceedings in connection with the banks which have taken place in law courts. With a few exceptions most of the banks which have failed or have been liquidated, have been pigmy concerns. The following table shows their number and position :—

Year.	No. of Banks Liquidated.	Capital.		
		Authorised.	Subscribed.	Paid up.
		Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
1913 (two months)...	18	2,74.00	1,64.56	35.3
1914 ...	43	7,10.50	2,45.61	108.12
1915 ...	17	56.50	7.91	4.60
1916 ...	13	2,30.90	20.90	4.23

Many of these banks had high-sounding names but were rickety from the very beginning.

# BANK FAILURES

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The paid up capital bore a small ratio to the subscribed and the authorised capital, as may be seen from the following table of some typical banks, compiled from the information published by the Department of Statistics:—

Name.	Authorised Capital.	Subscribed Capital.	Paid up Capital	Deposits.
	Rs.	Rs.	Rs.	Rs.
Solar Bank, Lahore; Registered, 17th April, 1913; Liquidated, 24th March, 1914....	1,00,00,000	1,55,000	8,510	.....
Orient Bank of India, Lahore; Registered, 18th May, 1907, Liquidated, 4th September, 1914. ....	25,00,000	10,00,000	71,354	4,94,958
Bank of Asia, Lahore; Registered, 2nd September, 1912, Liquidated 29th November, 1914....	25 00,000	4,65,450	32,099	76,781
Commercial Bank of India Gwalpur, U. P., Registered, 17th January, 1913, Liquidated, 2nd July, 1914. ....	10,00,000	5,775	4,250	18,655
Sri Krishna Bank, Madras; Registered, 28th May, 1909; Liquidated, 31st March, 1914. ....	5,00,000	5,00,000	2,125	.....

Banking corporations and bankers have to keep sufficient cash and liquid assets in their hands so as to be able to meet demands as they arise. But the joint stock banks did not follow this wholesome practise. While the proportion per cent. of the cash to the liabilities on deposits of the Presidency Banks has been 33 and of Exchange Banks 20, on an average, that of the joint stock banks has not exceeded 15 or 16. The position has steadily improved during the past four years.

"Cash balances at the end of 1916 were 35 per cent. of the liabilities on deposits in the case of the Presidency Banks, 25 per cent. in the case of Exchange Banks doing a considerable portion of their business in India, and 35 per cent. in the case of those Banks doing business all over Asia. The percentage for



Indian joint banks is 24 in the case of Banks with capital and reserve over Rs. 5 lakhs and 17 in the case of banks with capital and reserve between one lakh and less than 5 lakhs of rupees."

The lesson of the bank failures seems to have been taken to heart and the joint stock banks now evince a desire to strengthen their position, especially in the abnormal conditions created by the war. The remarks made by certain shrewd observers in connection with the position of these banks before the failures of 1913-16, have proved almost prophetic. Mr. Keynes wrote :—

"In the case of the smaller Banks, dealing, as they are, with clients to whom banking is a new thing, and in a country where hoarding is still dominant, the cash balances seem from the available indications, to be hopelessly inadequate; and it is hard to doubt in the next bad time, they will go down like nine pins. If such a catastrophe occurs, the damage inflicted on India will be far greater than the direct loss falling on the depositors". \*

**164. Proposed Restrictions.**—The failure of so many banks led the public and Government to consider whether it would not be desirable to impose certain restrictions upon firms and individuals who used the words 'banks,' 'bankers,' or their equivalents, thereby gaining an amount of prestige in the eyes of people and attracting deposits. The Government of India, therefore, issued a circular in August, 1913, asking Provincial Governments to communicate to them the views of the commercial community and others on this point. They suggested restrictions that would be desirable in the following matters :—

- (1) The prescription of a minimum amount of subscribed capital ; (2) a stipulation that an adequate portion of such capital should be duly paid up within a reasonable period from the starting of the business ;

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\* Indian Currency and Finance.

(3) a restriction on the full allocation of profits to dividends pending the building up of an adequate reserve; (4) a restriction as to taking up by a 'bank' of business outside that of banking in which the banking profits might be lost."

Some restrictions of the nature proposed by Government are clearly necessary in the interests of the public as well as of a healthy growth of Indian joint stock banking. But any banking law that may be passed, should be such as will not hamper the growth of legitimate and sound business and as will only protect healthy development from the competition of unscrupulous and unsound concerns.

The economic development of India requires an extension of banking facilities in all parts of the country. The people have to be taught to hand over their savings to banks which will use the funds thus collected for the promotion of trade and industry. There is a great scope for the expansion of banking, and concerns, small and large, if they are conducted along right lines, will be successful and helpful. High rates of interest rule in the market and small business men and producers cannot get the necessary accommodation without paying a heavy price. The ordinary money-lenders in towns and villages give credit to their clients, but charge exorbitant rates for their services. If banks were to collect cash from persons of small means and inspire confidence in the public mind, they would assist in the economic development of the country.

**165. Agricultural Banks.**—There are no land banks and agricultural banks in India like those in other countries.\* Landholders have, therefore, to raise loans by mortgaging their lands to money-lenders, and cultivators obtain advances from the village sowkar for the current expenses of agriculture. *Takavi* loans are made by Government to cultivators, but they are not popular,

\* See Gide's *Political Economy* and the next Chapter of this book.

and they do not satisfy the smallest fraction of the needs of the people. The indebtedness of the Indian rayats is colossal, and attempts made to relieve it, like that of the Deccan Agriculturists' Relief Act, have almost failed. There are here two problems to be tackled, first to enable the farmer to shake off the burden of the old debts and second, to advance to him the capital required to carry on his agricultural operations. If there were banks which would supply this two-fold credit, the cultivator's lot would be vastly improved. But he has as yet to rely, where there are no co-operative credit societies,—and these are too few in view of the large population of the country—on the old credit machinery *vis.* the money-lender who charges high rates for his money.

We have shown in Chapter V what is the position of the cultivator and the common artisan with regard to credit and supply of capital. In one of his pamphlets, on Agricultural Banks in India, Mr. D. E. Wacha pleads for the establishment of land banks which will emancipate the cultivators. He gives an account of the experiment of such a bank in Poona district which was to have been made about the year 1883, and argues that, after all, co-operative credit societies are not calculated to solve the problem of agrarian indebtedness.\* He holds up the Agricultural Bank of Egypt to imitation in this country and wishes enterprising men to start such banks and conduct them with the assistance of Government. There can be no doubt about the fact that the problem of agricultural indebtedness ought to have been boldly faced by the State long, long ago; and the cultivator should have been assisted to throw off the yoke of his debt, by means of agricultural banks. In Ireland and in France, for example, the State is placing large funds at the disposal of cultivators. This is not to minimise the urgent importance of the growth of the co-operative credit societies

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\* See page 105 above as also the next Chapter.

which are calculated to improve the status and economic position of the rayat as nothing else can, but to point out the colossal dimensions of the rayats' indebtedness and to suggest the radical cure necessary to remove it.

**166. Industrial Banks.**—The want of industrial banks is being similarly keenly felt. The Presidency and joint stock banks lend their monies for short periods, and they cannot afford to lock up their funds in ordinary securities or new industrial concerns. Like agriculture, industries require a special treatment, and it has been suggested that banks should be started for financing industrial enterprise. State assistance is also invoked in the matter though how precisely it should be rendered is a difficult point to settle. Government may advance capital on the security of the property of a concern when the loan has been recommended by competent authority ; or it may guarantee a certain rate of interest as it did in the case of railway enterprise. Financing of industries would certainly be better done by private banks strongly supported and supervised by the State. And if branches of such central banks were opened in small towns, the producers there would derive material benefit from them, and the banks themselves would do good business.

Organising capacity, expert advice and an adequate supply of capital are the essential requisites of industrial development. No new industries can be started unless they have the backing of men with capital to finance them or of industrial banks which will make it their principal business to support sound propositions. Such industrial banks do not exist in this country and their work cannot be done by the ordinary deposit banks. Neither the Presidency nor the Joint stock banks can assume this role, as they cannot lock up their funds in industrial concerns for a long time and do not possess the expert agency necessary to judge of the character of the industrial proposals placed before them. Japan has already

equipped herself with industrial banks and all other nations have been awakened to the urgent need of such institutions. Messrs. Tata, Sons and Company have recently taken the lead in starting an Industrial Bank with a capital of Rs. 6 crores and its progress will be watched with the keenest interest.

**167. The Bank Rate.**—The Bank rate is the rate which is charged for loans against Government securities, while the rate of advances on other securities and of discounts is slightly higher. The rates are not the same in the different Provinces. As we have said above, this business is, at present, done by shroffs and other money-lenders who deal in hundies. They grant accommodation for a few months and charge varying rates of interest. The shroffs in big commercial centres are a link between petty traders and shop-keepers and the Presidency and joint stock banks, the latter discounting their bills and thus coming indirectly in contact with the small business men.

The official bank or discount rate of the Presidency and other banks is, however, not identical with the rate that prevails in the bazars, and the latter is often not much affected when the bank rate rises owing to monetary stringency which occurs periodically.

“The shroffs who finance nearly the whole of the internal trade of India, rarely, if ever, discount European paper and never purchase foreign or sterling bills. Neither do they lend money on Government Paper or similar securities, but confine their advances to the discount of *hondies*, to loans to cultivators and against gold and silver bullion. The *hondies* they purchase are, for the most part, those of traders, small and large, at rates of discount ranging from 9 to 25 per cent. per annum but the *hondies* they buy from and sell to each other, which are chiefly the traders' *hondies* bearing the shroffs' own endorsement, rule the rates in the native bazar and are generally negotiat-

ed, during the busy season, at from 5 to 8 per cent. discount. They also discount their endorsements pretty largely with the Presidency Banks when rates are low and discontinue doing so when they rise above 6 per cent. They also speculate largely at times in Government Paper, especially during the off-season, but rarely or ever hold it or lend on it."\*

The bank rates are usually regulated by the intensity of demand for money required for financing the export of Indian staples to foreign countries and the supply of raw materials to large indigenous industries. The money supplied by the shroffs usually goes to finance the local movements of the staple crops from the fields to the markets. Funds may be taken from the banks to return the advances made to dealers by shroffs and in that way the two money markets come into contact with each other. When money is tight, the Presidency Banks will attract deposits for short periods by offering higher rates of interest and put up their lending rate at the same time. The rates are naturally high in the busy season and low when trade is slack thus the half-year ending 30th June witnesses higher rates than the other six months when there are no crops to be moved. The following table gives the maximum and minimum rates during the four years, 1913-1916.

	1913. (Pre war year).		1914.		1915.		1916.	
	Maximum		Maximum		Maximum		Maximum	
	Minimum.		Minimum.		Minimum.		Minimum.	
	p. c.	p. c.	p. c.	p. c.	p. c.	p. c.	p. c.	p. c.
Bank of Bengal ...	8	3	7	3	6	5	8	5
Bank of Bombay ...	7	3	6	3	6	5	8	4
Bank of Madras ...	7	5	5	4	7	5	8	6

\* Appendix to the Report of the Fowler Committee, page 70.

**168. Reserve Treasury System.**—While on this question of the bank rate in India, we may refer to the prolonged controversy which has raged round the reserve treasury system of Government and the artificial stringency which is alleged to be created by it. It is contended that by locking up crores of rupees in its treasuries the Government causes, in the busy season, a scarcity of money, and a regular system under which loans may be made to the Presidency Banks during the time of monetary stringency, has been suggested. Government has granted such assistance from time to time, but it is naturally reluctant to develop it into a regular system which it will be bound to follow.

This is a long-standing grievance of the banks and financiers in India, and it was accentuated by the fact that during the five years 1908-13 Government balances mounted unusually high and the Secretary of State having withdrawn a large portion of them, lent them to approved borrowers or deposited them with banks in London. So far as the question of a high bank rate in India and the reserve treasury system of Government is concerned, we do not think that having at their disposal crores of public deposits kept with them by Government, the Presidency Banks can reasonably complain against the reserve treasury system though we do not understand why Indian funds should be lent in England and should not be placed at the disposal of this country.

In two Notes which he wrote as far back as 1888 and 1899, on this subject, Sir James Westland put up a strong defence in favour of the existing system. He pointed out that there was no analogy between the position in England and that in India. In England, the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be

a small tax upon the whole banking balance of the place; and secondly "the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Presidency Banks."\*

Now that banking is progressing rapidly in this country, the Presidency and other banks must stand on their own legs and not look up to Government for assistance every time. The fluctuations in the bank rate between the busy and the dull season are, no doubt, great, but Government have to conserve their resources in view of demands likely to be made upon their balances, and can not be expected to place them at the disposal of banks. The Government of India hold the view they laid down in a letter written to the Secretary of State in 1900, *vis.* :—

"Regarding the general danger involved in the financing of trade by the Government we have before us the words of Lord Salisbury's Despatch of 6th May 1875, 'capital supplied by Government, and not representing the savings of the community, is a resource on whose permanences no reliance can be placed, and which therefore tends to lead the trade into dangerous commitments.' The warning conveyed in those words still holds good. The Presidency Banks have excellent reserves, it may readily be admitted. But those reserves could not, in the peculiar circumstances of India, be suddenly converted into cash, and it seems, therefore, undesirable that the account of one depositor, and that one, a Government exposed, as the Government of India is, in a most unusual degree, to sudden calls and emergencies, should occupy a 'position of such dangerous importance.' †

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\* See Appendix II to Chamberlain Commission's Report.

† Appendix I to the Chamberlain Commission's Report.



In taking a review of his financial stewardship, Sir William Meyer observed in the Viceregal Council that one of the problems he had wished to tackle, had reference to the periodical money stringency which is a characteristic of the busy trade months of the year in India. As the policy of Government of locking up funds in its treasuries had been subjected to strong adverse criticism, the Secretary of State's assent was obtained to a modification thereof and it was decided to make loans to the Presidency Banks in times of stringency. Sir William had to face a difficult situation of financial strain caused by the war and he found it beneficial to deal liberally with the Presidency Banks by keeping with them larger balances, leaving in deposit, till actually required, the proceeds of public loans and avoiding the lock up of funds in the reserve treasuries.\*

But this does not solve the problem of periodical monetary stringency and of the lock up of funds in reserve treasuries, because in view of emergencies Government feels it desirable to maintain its own reserve and cannot rely upon the Presidency and other banks. We may expect the State Bank when it comes into being and the system of treasury bills tried during the war, to render the reserve treasuries superfluous and wasteful.

**169. Savings Banks.**—Post Office Savings Banks have always provided people of the middle class with the convenience of a secure means of depositing their small savings, and they have been availed of by all those who did not care to speculate and run after higher rates of

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\* Speech made in presenting the Financial Statement for 1912-13.

interest and dividend at the risk to the safety of their money.

"In 1833 with the failure of the commercial houses of Calcutta, a Government Savings Bank was formed to afford to Europeans and Indians alike a means of investing their savings apart from the uncertain influences of commerce. Until 1882-83 the business of the Government Savings Bank was conducted by the Presidency Banks in Calcutta, Bombay and Madras and by Government treasuries elsewhere. The Post Office took over the management of them from that date and in the first year of the existence of a Savings Bank under the control of the Post Office, a great change was manifest and Government had actually to take measures to prevent a too rapid increase in deposits. In 1911 the deposits, inclusive of interest, amounted to 17 crores, of which  $15\frac{1}{4}$  crores belonged to India."<sup>§</sup>

The deposits in the Post Office Savings Banks form the unfunded debt of the Government of India and are used by it for capital expenditure. Government is a big banker and it borrows and lends money. Its general balances are the source from which depositors are paid when they want to withdraw their money and on the outbreak of the War there were heavy withdrawals which were all met from the balances. In 1914, Government offered certain additional facilities to depositors by raising the limit of the amount of their annual and total deposits as well as of their investment in Government securities. These facilities drew large deposits from the public, their total amount reaching 24 crores of rupees in 1914.

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<sup>§</sup> Findlay Shirras.

The following are some important figures in connection with Post Office Savings Banks :—

Year.	No. of Depositors.	Deposits (inclusive of interest)	With-drawals.	Balance of Deposits (inclusive of interest).
	No. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
1900-01	816	3,90,65	3,50,97	10,04,33
1905-06	1,116	5,50,06	4,91,50	19,92,26
1907-08	1,262	5,94,83	5,53,39	15,18,14
1909-10	1,379	6,00,21	5,36,90	15,86,72
1911-12	1,501	8,78,70	6,80,72	18,89,85
1913-14	1,639	11,60,37	9,04,76	23,16,75
1915-16	1,660	8,16,32	7,73,46	15,32,12
1916-17	1,647	9,38,20	8,10,79	16,59,93

The normal growth of the deposits in the Post Office Savings Banks has been apparently arrested. The setback received by them on the outbreak of the War, was only temporary, and if the amount of the deposits has not returned to the pre-war level, the cause is to be sought in the withdrawals by people for investment in war loans. The failure of joint stock banks in 1913, diverted the flow of money from them to the Postal Banks as Swadeshi banks had formerly attracted the savings of the middle class to themselves by their more attractive rates of interest. These tendencies will be found clearly reflected in the figures given in the table above.

The Presidency and joint stock banks have savings departments attached to them, and here there is an unlimited field which must be properly exploited. Small

savings of the people must be collected to finance trade and industries and thus to promote the economic development of the country. Co-operative credit societies are now tapping this source, as we shall show in the next chapter; and the general policy which Government has followed since the outbreak of the War in the matter of finance, will go a long way in teaching the people the habit of saving and lending. A special Post Office branch is tacked on to the public loans and contributions are received through the Post Office. The first attempt yielded about half a crore; and the cash certificates offered in the War Loan as also the opportunity given to contribute to other securities through the Post Office, is a step in the right direction.\*

**170. State Bank.**—We shall close this chapter with a reference to a scheme which has been before the country for some time of a central or State Bank for India on the lines of the Bank of France, or the Reichsbank. In India, note issue is a monopoly of the State while in other countries it is a right conferred upon one central Bank, or upon a few banks on certain conditions. The Government, therefore, has to perform here many functions which ordinarily fall within the province of a bank. The State has its reserve treasuries and ordinary treasuries, supplies the currency required for the movement of crops at different times and in different provinces, keeps its gold standard and currency reserves, meets Council bills and sells sterling drafts, borrows here and in England, and

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\* "We have further opened up new borrowing sources, and I refer here specially to the postal section of the last three loans and to the cash certificates. The former method of utilising the Post Office to get into touch with the small investor was introduced for the first time in 1915-16 when it gave us £½ million; while in 1916-17 it yielded a little less. But this year the postal section of the War Loan produced nearly £3 million, a larger sum than we raised by ordinary methods in any year between 1907-08 and 1913-14; while the cash certificates will have given us in this first year of their issue about £6½ million (gross) a result exceeding those of any of our public loans before the present year."—Speech of Sir William Meyer at introducing the Financial Statement for 1918-19.

lands to approved borrowers out of its surplus balances. The relation of all these transactions and the ordinary transactions of the money market, must be very intimate, and it is maintained through the agency of the Presidency Banks. But it is felt that in the interests of trade and of the general public, it would be much better if Government transferred these functions to an independent bank, of course, carrying on its business, more or less, under its supervision and control.

A scheme for the amalgamation of the three Presidency Banks into such a Central Bank, was formulated so far ago as in the year 1867, but nothing further was done and the question formed the subject of discussion again in 1899 and 1900. Both the Secretary of State and the Government of India were favourably inclined to the idea, but it was temporarily abandoned as it was thought that the time was not propitious, and 'provincial and personal jealousies' were also a cause of the abandonment of the scheme. It was revived thirteen years later and came up for consideration before the Chamberlain Commission. But the Commission declined to express any definite views on it and to make any recommendation about it. Mr. J. M. Keynes, one of its members, drew up an exhaustive Note dealing with the proposed Central Bank and attempted to show how such a Bank was not only desirable but also perfectly feasible. He has given an outline of the constitution and functions of an Indian State Bank and discussed arguments in favour of and against it.

Expert opinion on this question seems to be divided. Some do not think that one bank, however large it may be, will be able to satisfy the needs of such a continent as India, and they would like the three Presidency Banks to continue. They feel that what is wanted is only a suitable adjustment of the existing machinery to the growing requirements of the country. They apprehend a danger

in this 'placing all the eggs in one basket' and are not sure that the position of Government will be improved with a central bank rather than without one. What is wanted, they urge, is not a concentration of banking but more Indian banks conducted by Indians.\* There is much truth in this view, but we do not disfavour the idea of a Central Bank provided the interests of the public are properly safeguarded and the economic development of the country is promoted thereby.

In fact, the need of a large central State Bank is being more keenly felt every day. With the expansion of the paper currency and of the foreign and internal trade of the country, the importance of properly organising India's financial strength has become very great. The Gold Standard and Paper Currency Reserves have grown enormously and have been invested in London. The time has, therefore, come when a large State Bank must be started in India either by the amalgamation of the Presidency Banks or independently of them. The State Bank will in no way retard the development of the ordinary banks; on the contrary, the position of such banks will be more secure with a central bank to support them. There is enough capital in India to finance such a bank; and through its branches it will keep in touch with the trade of the different provinces. It will likewise take up exchange business and many of the difficulties which Government experiences in this connection, under existing conditions, will disappear.

**171. India's Banking Needs:—**After the description we have given so far of the condition of banking in India, it is not necessary to repeat that the need of expansion in this connection is urgent. With respect to banking facilities and the amounts handled by banks, there is no comparison between the position of India and that of western countries. The total aggregate deposits

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\* See Webb's "Advance India."

of British banks, exclusive of the Bank of England, at the end of 1915 were £ 1,271,000,000, and including the Bank of England, £ 1,433,000,000. At the end of 1914, the corresponding amounts were £ 1,167,000,000 and £ 1,322,000,000, while at the end of 1913, the deposits and current accounts of the joint stock and private banks were £ 1,070,000,000 and, if the deposits of the Bank of England are included, £ 1,420,000,000. Several English banks have, each of them, deposits larger in amount than the total deposits of all the Indian banks put together !

While the deposit per head of the population in England is above Rs. 470, the corresponding amount in India can not be put at a higher figure than Rs. 5. The following tables will be found instructive :—

**Population of areas served by the Presidency Banks and the per capita deposit in each Bank.**

Name of Bank.	Areas served by the Bank (Head office and branches).	Total population of the area at last census.*	Total private deposits in the Bank in 1916.	Deposit per head of population.
		(1,000)	(1,000)	
Bank of Bengal	Bengal, Burma, Assam, Bihar and Orissa, Central Provinces, United Provinces, Punjab, Delhi, North-West Frontier Provinces, and the Hyderabad State.	206,388	21,43,61	1'04
Bank of Bombay	Bombay Presidency including Sind, Berar, and Indore.	33,186	13,67,09	4'13
Bank of Madras	Madras Presidency and Mysore.	52,023	9,60,17	1'85

\* The figures refer to census of 1911 and include the population of Native States situated within provincial boundaries.

# INDIA'S BANKING NEEDS.

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## Deposits in Banks in India.

Year.	Presidency Banks and Branches.	Exchange Banks (Deposits in India only).	Indian Joint-Stock Banks.	Total.
	(1,000)	(1,000)	(1,000)	(1,000)
Thirty years ago (1888)	9,77,12	4,16,60	1,14,86	15,08,58
Twenty years ago (1898)	15,92,10	10,15,31	5,38,19	31,45,60
Ten years ago (1906) ...	30,52,93	18,08,73	11,55,49	60,17,15
1907 ... ..	31,47,04	19,17,01	14,00,29	64,64,34
1908 ... ..	31,87,32	19,51,52	16,26,09	67,64,93
1909 ... ..	35,84,79	20,27,42	20,49,10	76,61,31
1910 ... ..	36,58,01	24,79,17	25,65,85	87,03,03
1911 ... ..	38,58,29	28,16,90	25,29,11	92,04,30
1912 ... ..	40,11,48	29,53,62	27,25,98	96,91,08
1913 ... ..	42,37,16	31,03,54	24,10,34	97,51,04
1914 ... ..	45,65,60	30,14,76	18,37,12	94,17,48
1915 ... ..	43,49,96	33,54,56	18,78,64	95,83,06
1916 ... ..	49,91,45	38,03,88	25,72,28	1,13,67,51

**172. Summary.**—Banking has always been regarded in this country as an honourable and lucrative profession, and bankers have occupied a high status in society. Rulers borrowed from the banking houses funds to carry on wars on the security of their revenues. Banking was often hereditary in certain families. They financed the trade of the country and sold drafts or *hundies*. They took deposits and gave loans, small and large. Besides these big bankers and banking houses, the *Pedkies*, money-



lending was and is carried on by *Banias*, *Mahajans* and *Saraphs*. The latter dealt in precious metals and advanced monies on solid security. They were money changers as well as money-lenders. Most of the financing of the trade and industries of the country is still in the hands of this class of banker and money-lender, and those occupying high status among them are steadily adapting themselves to the modern conditions in the midst of which they live.

The indigenous banking houses and bankers are thus rendering a valuable service to the people, and modern banking is only a growth of the last hundred years, peculiarly marked during the last generation. This banking was initiated by the Agency Houses of Calcutta and the Presidency Banks of Bengal, Madras and Bombay. These enjoyed the right of note issue, which became a monopoly of Government in 1862. At first, the State contributed to the capital of the latter Banks and was represented on their boards of directors. In 1874, Government, which used to keep all its balances with the Presidency Banks till that time, found it necessary to establish the 'independent treasury system' on account of the difficulty it experienced in withdrawing a part of its deposit at the Bank of Bombay when it badly wanted the money. The Presidency Banks Act was passed in 1876 which regulates the relations between these Banks and the Government.

This Act imposes certain restrictions on the operations of the Banks in view of the advantages they are allowed to enjoy. They can use public funds up to a specific limit without having to pay interest on them and also receive stated remuneration for the services they perform for the State. The Banks cannot borrow outside India and cannot deal in sterling bills. The conditions on which they may lend are also laid down. Government does not interfere with them further than this and in all other respects they are like any other private banks. The

Presidency Banks finance the internal trade of the country and their deposits have grown considerably within the past few years.

The Exchange Banks, whose operations cover the further East along with India, receive deposits in India as well as outside and monopolise the financing of the foreign trade of the country. They purchase sterling bills drawn by exporters of raw materials and use the funds realised from them in London to buy the drafts sold by the Secretary of State for India who thus receives the money required to make his annual disbursements. The Exchange Banks also sell drafts on London for those who wish to make remittances and import sovereigns when this is more profitable than bringing funds by means of Council drafts.

Joint stock banks are few and small and are a growth of the last few years. They were able to attract deposits by the prospects they held out of high rates of interest and people of the middle class entrusted them with their savings. This mushroom growth was the result of the industrial boom of 1905-6 but the banks were not properly managed and their funds were locked up so that the assets could not be easily realised. Their position was unsound from the business point of view, and in 1913 and 1914 about fifty of the newly started banking concerns came to grief. The bank failures entailed loss and misery upon thousands, but they taught a lesson in banking management. The habit of saving and banking is steadily growing in the country, and more banks are required for financing the trade and industries of the country and utilizing cash that otherwise would lie idle. The steady increase in the deposits in the Postal Savings Banks is an indication of the popular tendencies which were also visible in the growth of joint stock banks.

The country has not got land and agricultural banks to help the land-owners and cultivators whose credit is small and who have to borrow from the village sowkar at

exorbitant rates of interest. Co-operative credit societies are doing good work in this direction but the field to be exploited is vast. The industries of the country also require special banking institutions to finance them. Peculiar facilities have to be given to agriculturists and manufacturers and ordinary banks are not calculated to suit their purpose. With the backing of the State, many such banks may be started with advantage to all concerned.

The bank rate is, of course, determined by the condition of the money market at any given time, but there is a complaint in India that the Government locks up large amounts of money in its reserve treasuries at a time when demand for accommodation is keen and thus the bank rate goes up to the inconvenience of the public. The Government of India has always held that the system complained of is absolutely sound and beneficial and that it must have an independent reserve on which it may be called upon to draw at any time.

The Government of India and the India Office are themselves big banking institutions, borrowing and lending vast sums every year. It is suggested that this banking work should be entrusted to a separate banking concern, a central bank, to be conducted on the lines of the Bank of France or the Reichsbank of Germany. The amalgamation of the Presidency Banks for this purpose was proposed, but after prolonged discussion the idea was given up. It was revived before the appointment of the Chamberlain Commission which did not, however, specifically consider the question and further discussion was stopped by the War. Competent men have taken opposite sides on the question. While some think that it would be advantageous for the Government to hand over its banking business to a Central Bank working under certain restrictions, others hold that this change of policy would be full of risk and would spell disaster. The matter stands there for the moment.

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## Chapter XIII.

### THE CO-OPERATIVE MOVEMENT.

#### REFERENCES.

Henry Wolff : *People's Banks*; Mr. Caird's *report on the Economic Condition of India* ; *Reports of the Famine Commissions*; *Report of the Deccan Riots' Commission* ; *Correspondence respecting Agricultural Banks in India* ; F. A. Nicholson : *Report regarding the institution of Land and Agricultural Banks in the Madras Presidency, 1885* ; *Report of the Committee on the establishment of Co-operative Credit Societies in India* ; J. R. Cahill : *Report on Agricultural Credit and Agricultural Co-operation in Germany* ; *Provincial Reports on Co-operative Societies in India* ; *Government of India's Resolution of 1914 on Co-operation*; *MacLagan Committee's Report on Co-operation*; *Statements showing progress of the Co-operative Movement in India during the year 1916-17.*

**173. Principle of Co-operation.**—Competition, specialization and concentration are three chief features which characterise the modern organisation of industry. They have led to production of wealth upon a vast scale, to increased efficiency, to reduction in cost of production and to the cheapening of products. The advantages of the new system are undeniable. But it has brought in its train a number of evils and it is not an unmixed good. Thus competition entails hardship upon the weak and the backward, specialisation tends to turn the human being into a mechanism, and concentration creates a powerful class of capitalists and employers. The disadvantages of the factory system are patent and an effort is being made to minimise them in various ways. One of the ways of achieving this end is co-operation.

There is co-operation of a sort in all departments of life and even in modern industrial organization, and it is also compatible with competition. Employers and workmen co-operate, and no wealth can be produced without the co-operation of the agents of production.

"Co-operation in its technical sense, however, means the abandonment of competition in distribution and in production. In distributive co-operation, the customers who are members of the co-operative societies select one of themselves as manager of the store and share any resulting profit. As they are expected to make no purchase elsewhere, there is no competition. Such co-operative stores are found principally in Great Britain. They have never flourished in America because they have been unable to supply the commodities as cheaply as the great departmental stores. In productive co-operation the object is to eliminate the capitalist and to remove competition between the workmen. The labourers elect one or more of their number to control the enterprise, and divide among themselves the gains."\*

The principal object of co-operation, therefore, is to eliminate the middleman, the employer, and the capitalist. Workmen and consumers form themselves into groups and create a power by means of combination which, as individuals, they do not possess. The profits which are taken away by the middleman, the capitalist and the employer, can then be divided among the members of the groups; and they rejoice in a sense of independence. Some enthusiasts have unbounded faith in the principle of co-operation which, they think, will characterise and ought to characterise the economic organization of the future as it will remove many of the evils associated with the existing regime. They see in co-operation an economic and even a moral force of great potentiality which will prove the salvation of modern society.

**174. Advantages of Co-operation :—**Take co-operation for purchase and sale as an example. The agriculturist or craftsman who wants to buy seed and manure of raw material, is at the mercy of the money-lender who is seller and capitalist rolled into one. The agriculturist

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\* Seligman : Principles of Economics.

or craftsman has no choice in the matter of quality and price and has to submit meekly to the terms of the money-lender. If a number of agriculturists or craftsmen, however, combine for the purpose of purchase, they can buy on better terms, as regards quality and price. Similarly in the matter of sale. Societies formed for this purpose, can wait till they obtain better prices for the goods to be sold, and the producers need not offer their produce for what it will fetch. When the cultivator is in need of money he is content with any price the merchant, who is often his creditor, will give him, but a co-operative society will make advances to its members and will try to secure for them the best prices obtainable.

An individual who wants capital for the ordinary conduct of his business has not much credit, and the money-lender, therefore, charges him a high rate of interest. He has no security to give and the common bank cannot deal with small men like him. A society of such individuals, however, may command, on the joint security of its members, better credit in the market and by organization and self-help, they may capitalise their honesty. When the element of risk is eliminated from the amount charged for loans, the rate of interest naturally goes lower and the debtors benefit to the extent of the margin.

A desire to eliminate the middlemen and to be self-reliant, teaches thrift and men learn to lay by and create capital. In co-operation the moral gain is as great as the material, and it elevates the masses by making them respect themselves. The advantages claimed for co-operation may appear to be exaggerated, but where the principle has been properly imbibed, the benefit is real and lasting. We are told that as an effect of co-operation,

"The idle man becomes industrious, the spend-thrift thrifty, the drunkard reforms his ways and becomes sober, the haunter of taverns forsakes the inn,

the illiterate, though, a grandfather, learns to read and write. It sounds like a tale from wonderland, yet it is all sober fact."<sup>\*</sup>

The MacLagan committee on co-operation sums up its nature and benefits in the following words :—

"The theory of co-operation is briefly that an isolated and powerless individual can, by association with others and by moral development and mutual support, obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action, self-reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as 'better business, better farming and better living'."<sup>†</sup>

The progress made by the co-operative movement in India during the short space of a few years, has been characterized as 'phenomenal.' Co-operation in India is mainly directed towards the supply of cheap credit. The number of societies formed for the purpose of sale, purchase or production, is comparatively very small. The movement is going forward by leaps and bounds and the number of societies in the whole of India had, by 1917, increased to 23,036, the number of members to 10,45,425, and the working capital to Rs. 12,22,92,180. Compared with Germany and Italy, these figures are extremely low, but the movement in India is only a few years old, and the progress made in the first stage of its development, has been unequalled in any other country.

**175. The Problem in India.**—The co-operative movement in India owes its inception to the failure of the attempts made by Government for more than a generation

<sup>\*</sup> Henry W. Wolff: *People's Banks*.

<sup>†</sup> MacLagan Committee's Report, page 2.

to cope with the serious problem of the deep-seated poverty and growing indebtedness of the cultivators who constituted the bulk of the population.\* (1) With the establishment of peace and orderly Government under British rule, the population of the country steadily increased. (2) The new form of revenue, judicial and police administration, as also the economic evolution which went on slowly but surely in the country, disorganized the old social and industrial system. (3) The new laws and the systematic execution of the decrees of courts altered the relations between debtors and creditors to the disadvantage of the former and strengthened the position of the latter.\* (4) The rigidity of the system of land revenue collection and the facility with which lands could be mortgaged to sowkars, drove the rayat deeper and deeper into the mire of indebtedness. (5) The growing dependence of the people on agriculture as the means of subsistence, which arose out of the decay of indigenous industries, intensified this evil. (6) The exhaustion of the soil went on apace, and no capital could be put into it if the land remained in the hands of the rayat, and farming could not be efficient, if it passed into the hands of the money-lender. (7) Periodical droughts and famines caused enormous losses and grave misery to the cultivators and rendered them more resourceless and dependent. (8) A kind of material and moral depression seemed to brood over the mass of population; and to diagnose and find remedies for the disease became the most urgent problem that confronted the people and the State.

This is the impression which is left on one's mind by a perusal of the reports of committees and commissions which have investigated the problems of Indian famines, the rayat's indebtedness and poverty and the nature and

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\* "The pressure on the means of subsistence is rendered more severe by the moral disorganization produced by laws affecting property and debt, not adapted to the condition of the people."—James Caird.



effects of the system of land revenue prevalent in the country. For thirty-five years before the passing of the Co-operative Societies Act of 1904, Government considered the problem from time to time, and tried a number of palliatives, all of which have been pronounced as failures. It granted *takavi* advances to cultivators, passed Agricultural Loans and Land Improvement Acts, moderated the rigour of the law in favour of the agricultural debtor, and sought to restrict the power of the latter of alienating his land. But these remedies did not go to the root of the disease and consequently there was no improvement. Recurrent famine and scarcity focussed attention upon the evil and rules were made for mitigating the rigour of the collection of land revenue. At last co-operation came to be regarded as the sovereign remedy, and in 1904 an Act was passed launching the movement into existence.

**176. Failure of Early Efforts.**—A system of advances to agriculturists from the treasury of the State had been in vogue from the commencement of British rule in India and the various regulations connected therewith were consolidated by Act 26 of 1871 amended by Act 21 of 1876. The object of this Act was:—

"To define the purposes for which it was held to be legitimate to place a charge on the land, as security for the repayment of advances made by the State, to enable improvements to be carried out, and to give the Government a preferable claim on the land for such repayment."

After eleven years' experience, it was universally admitted that the Act was a failure. The defects in the Act which were responsible for the failure, were sought to be remedied by Act 19 of 1883, the Land Improvement Loans Act, and an endeavour was also made to encourage

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\* Famine Commission's Report, 1880.

the application of private capital to land. This act was followed next year by the Agriculturists' Loans Act (12 of 1884).

"Under the former Act, money is advanced for specific purposes of land improvement, and under the latter, for seed, cattle, and other miscellaneous agricultural purposes. But the objects of the two Acts are closely connected, for it will often be the case that in order to make efficient use of his improvement the cultivator will find it necessary to provide himself with cattle and manure, well-gearing and the like, if not with seed."†

It is not necessary to refer in this place to the views expressed by the Deccan Riots Commission in 1876 or to the Deccan Agriculturists Relief Act passed in 1879 which created a special machinery for inquiring into and adjusting disputes between money-lenders and cultivators and empowered courts to go behind the contract between the two, to cut down interest to reasonable proportions and to allow the debtor to pay off the debt by easy instalments. Experience of nearly 35 years of the operations of the Act is disappointing and there is a wide-spread impression that it must go. While the debtor is seeking to take full advantage of the provisions of the Act, the creditor is too shrewd a person to lend under conditions which will inflict a loss upon him. It is believed that the Act has had a demoralising effect upon creditors and debtors alike, and a Committee of inquiry appointed by the Government of Bombay, has suggested certain important modifications of the Act.

What could not be achieved by the kind of measures described above, it was believed, could be accomplished by the establishment of agricultural banks, and the subject was much discussed in the eighties of the last century. The position is well summed up in a despatch on

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† Report of the Indian Irrigation Commission.

the subject sent by the Government of India to the Secretary of State, dated 31st May, 1884, thus :—

"The utility of similar institutions in Europe, America and Australia is well known to your Lordship, and we understand that in the British Colonies especially the progress of agriculture and the various enterprises connected therewith, have been much advanced by the monetary assistance thus afforded to the cultivating and land-owning classes. There are indications that India, no less than the countries to which we have referred, suffers from want of loanable capital. The rate of interest is extremely high even where the security is of the best description, the agriculturist when in need of money for the most prudent purposes, has to pay so dearly for a loan that it absorbs the profit of his business. The Deccan Ryots Relief Act, the Jhansi Encumbered Estates Act, and other similar measures of an exceptional character have tended to relieve the peasantry in some localities of a hopeless load of debt; but they have not enabled the thrifty and industrious cultivator to obtain money for agricultural purposes on easier terms or more equitable conditions. We have endeavoured to meet this need in respect of loans for land improvement but this is not sufficient. The cultivator requires money from time to time for other purposes, and it has been found that if he can only borrow for one particular object from the Government, he prefers to deal entirely with the money-lender who will lend for all purposes. What is wanted, therefore, is a private bank which will in a measure take the place of the village usurer, but which will at the same time be bound by the articles of its constitution to restrict its dealings to the more solvent cultivators and to supply capital at comparatively easy rates and on equitable conditions."

A number of public spirited men in Poona and Bombay and also Gujarat, were prepared to make an experi-

ment in this direction, and the Purandar Taluka of the Poona District was selected for the purpose. A correspondence ensued on the question of the details of the scheme between the Poona Committee, the Government of Bombay, the Government of India and the Secretary of State. The late Sir William Wedderburn took a very keen interest in the matter, and on 19th October 1883, read a paper on the question at a meeting of the Manchester Chamber of Commerce. Good fortune seemed to smile on the scheme and the authorities in India, Provincial and Supreme, were propitious. But in his Despatch of 23rd October, 1884, the Secretary of State raised a number of difficulties, making out the bank scheme to be an unsound and impracticable project. Here the discussion practically ended and nothing further was done in the matter.

**177. Beginning of Co-operation.**—The Famine Commission of 1901 reviewed the efforts which had been made in the direction of granting loans and relief to the agriculturists and suggested that the only effective remedy lay in the establishment of agricultural or village banks of the Raiffeisen type which would carry on their operations strictly on the co-operative principle. A similar conclusion had been already reached by Sir Frederick Nicholson of the Indian Civil Service in his comprehensive and instructive report submitted to the Government of Madras in 1895.

“In this report he described the systems of co-operation in force in European countries and examined their applicability to Indian conditions. While it was under consideration, a volume entitled ‘People’s Banks for Northern India,’ was published by Mr. Dupernex I. C. S., and a few small experimental societies were instituted by Mr. Dupernex and other officers in different parts of India. So long, however, as the transactions of these societies were governed by the complicated provisions of the Companies’ Act, it was

impossible to expect much progress and a Committee was, therefore, appointed by Lord Onslow in 1901, under the Presidency of Sir Edward Law, to report on the action necessary for the establishment of co-operative societies on a proper footing. The Committee had the benefit of the advice of Mr. Henry Wolff, the leading authority in England on the subject, and as a result of its recommendations a Bill was introduced in the Legislative Council by Sir Denzil Ibbetson and was subsequently passed as Act X of 1904.\*

As co-operative credit in India is mainly intended to assist the agriculturist, it is natural that co-operative credit societies in this country should mostly be of Raiffeisen type. The chief features of the Raiffeisen banks are ' (1) limitation of area, so as to secure mutual personal knowledge on the part of members; (2) low shares; (3) permanent indivisible reserve fund; (4) unlimited liability of members; (5) loans only for productive or provident purposes; (6) loans only to members; (7) credit for relatively long periods with facilities for repayment by instalments; (8) the determination every year by the members of each society of the maximum credit that may be held by individual members at any time as well as of the maximum total of saving deposits receivable and of loans that may be taken up by the society; (9) absence of profit-seeking, dividends if paid being usually limited, as a maximum, to the rate of interest paid by borrowers for loans; (10) office-holders, with the exception of the Secretary, not paid for their services; (11) promotion of the moral as well as the material advancement of members, and, in particular, the purchase of agricultural requisites for sale to members and often the procuring of agricultural machines and implements for letting on hire to members.'

These features of the village bank are calculated not only to supply the cultivator with cheap credit but to

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\* Government of India's Resolution on Co-operation in India, 1914.

teach him to combine with his fellows for common interests, to practice thrift, to make productive use of his resources and to build up his economic prosperity on the foundation of self-help.

"It is not merely cheap and facile credit that is required; it is a credit which must indeed be cheap and facile in that it shall ever be at hand but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower; it should be granted to those who have learned to think, to plan, to save; the method of providing it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury, but in being controlled, heedful and productive." †

Credit societies, started and conducted on the principle of another German philanthropist and zealous organizer, Schulze-Delitzsch, are intended for the benefit of urban people—unlike the Raiffeisen banks which serve the rural population—artisans, small traders and professional classes. The founder of these societies also believed in thrift, self-help and solidarity but as he dealt with the urban population, his banks assumed a more business-like and less altruistic form. Schulze-Delitzsch banks raise funds by shares as well as by deposits, and the liability, as in the case of the other kind of bank, is not unlimited. A considerable part of profits is distributed as dividend on the paid up portions of the shares. Loans are granted for short periods and all services are paid.<sup>a</sup>

The area covered by the operations of these banks is larger and the banks have generally an air of commercial and profit-seeking enterprise. Dependence on personal security, formation of character, rendering of mutual help,

† Sir F. Nicholson's Report.

<sup>a</sup> See *A Manual of Co-operative Societies in the Bombay Presidency* by Mr. R. R. Kumbhak.

exercise of vigilant supervision of the use of loans, promotion of moral restraints, of public spirit and of a feeling of solidarity, are of the very essence of the co-operative movement and these are the characteristic features of the rural banks. The two types of popular banks appeal to two different sets of people, living in different environments and having different habits and needs. Hence the difference between the constitution and working of the two kinds of banks.

**178. Co-operative Societies Act.**—When the co-operative movement was launched with the Act of 1904, it was regarded as an experiment, and Government was anxious to steer clear of two extremes viz. (1) undue interference and control and patronage on the one side and (2) *laissez faire* on the other. A Government officer, called the Registrar, was appointed for each Province to dry-nurse the infant movement and to be its guide, friend and philosopher as it steadily grew. Certain concessions were given to the societies by the State, and their profits and operations were exempted from the income tax, stamp duties and registration fees. The societies were likewise to be assisted with State funds in the initial stages of its development on certain conditions.

The progress of the movement was encouraging, and it was found that the Act of 1904 was inadequate to meet the growing requirements of the development: (1) That Act applied to societies for the purpose of co-operative credit only, and not to co-operative societies of other kinds, such as those established for production or distribution, and (2) to unions of societies in larger bodies so as to secure a large measure of non-official inspection and control and to facilitate the raising of funds. (3) The Act classified societies according as they were 'urban' or 'rural' and the principle was laid down that as a general rule societies should be with unlimited liability. This distinction was found to be artificial and inconvenient,

and it was proposed to recognize the distinction between societies with limited and those with unlimited liability while retaining the principle that agricultural societies must, as a general rule, be with unlimited liability. (4) The Act did not contemplate that societies with unlimited liability should distribute profits. While not encouraging this practice of distributing profits, the amending bill of 1911 proposed to legalise it. A new Act, the Co-operative Societies Act, was passed in 1912 (No. II of 1912) embodying changes found necessary by seven years' experience, as indicated above.

Two years later, Government came to feel that the time had come to inquire if the co-operative movement was proceeding along lines economically and financially sound. A committee was, therefore, appointed with Sir E. D. MacLagan as President, and it was instructed to direct its enquiry to "an examination of such matters as the constitution and working of Central and Provincial Banks, the financial connection between the various parts of the co-operative organization, the audit, inspection and management of all classes of societies, the utilization of the reserve and the manner in which reserve funds should be exhibited in the annual accounts." From the report of the Committee one gets a clear idea of the position of the co-operative movement in India, the nature of its organization, its strong and weak points and the directions in which reform is needed.

Co-operative organization has for its foundation primary societies, agricultural and non-agricultural, credit and non-credit. A number of these societies may be grouped into guaranteeing unions as an intermediary between the primary bodies and the central bank. If all societies in a district are closely associated with the central bank, there will be a large apex bank at the head of each Province, to balance the excesses and deficiencies in central banks and to supply them with the necessary



funds. All the different limbs of this co-operative organism must be strong and healthy and capable of performing efficiently the duties entrusted to them if the movement is to make satisfactory progress. A clear idea of the existing organisation of co-operation in India may be obtained from the summary of the report of the Mac-lagan Committee we give in a later part of this chapter.

**179. The Present Position :—**The success which the co-operative movement has achieved so far, must be regarded as quite satisfactory. And the following statistics will be found instructive :—

#### I Co-operative Societies in India.

	1906-07	1909-10	1912-13	1915-16	1916-17
Central (including Provincial Banks and Unions) ...	14	38	251	605	757
Agricultural (including Cattle Insurance and Re-insurance Societies) ...	740	3,145	11,382	18,051	21,070
Non-agricultural ...	89	321	691	1,019	1,209
Total ...	843	3,498	12,324	19,675	23,036

#### II. No. of Members.

Central (including Provincial Banks and Unions) ...	2,774	37,40	29,780	53,078	84,141
Agricultural (including Re-insurance Societies) ...	54,469	1,65,560	4,67,378	7,17,163	7,24,576
Non-agricultural ...	33,601	61,398	76,378	1,48,195	1,76,708
Total ...	90,844	2,30,698	5,78,536	9,18,436	10,45,425

## III. Working Capital.

	Rs.	Rs.	Rs.	Rs.	Rs.
Share capital paid up ...	5,55,805	23,08,348	26,19,793	1,77,09,879	2,12,23,328
Loans and deposits at end of year from Members ...	5,76,025	25,33,317	93,54,645	67,37,579	79,00,585
Loans and deposits at end of year from individual Non-Members ...	6,56,092	34,82,691	1,33,60,788	3,35,33,561	3,22,37,126
Loans and deposits from Societies ...	2,40,425	30,26,106	1,93,61,345	26,19,925	32,29,397
Loans and deposits from Provincial and Central Banks ...	...	...	...	3,31,27,874	4,01,72,550
Loans and deposits from Government ...	2,84,733	7,21,775	11,27,547	15,96,705	17,24,859
Reserve Fund ...	58,598	3,36,451	16,08,143	72,79,626	92,04,138
Total ...	23,71,683	1,23,97,682	5,34,34,261	1032,67,149	12,22,92,120

It will be seen from the above statistics that the amount of the working capital of the societies is increasing only a little faster than the number of members and the average is Rs. 117 per member. The average number of members is less than 46 per society and this is attributed to the increasing proportion of small agricultural societies. The average capital per society is only Rs. 5,309. The bulk of the societies are credit institutions and the number of those dealing with production, sale and purchase &c., is extremely small.

But it may be asked, to what extent has the problem of the indebtedness of the rayats, which the co-operative movement was started to tackle, been solved? When this test is applied, it will have to be admitted that only the fringe of that problem has yet been barely touched. The economic advantage co-operation confers upon the cultivator or the craftsman is patent; and the benefit of cheap

credit to agriculture has been acknowledged. But what is a working capital of one or two crores of rupees, for instance, of the societies in the Bombay Presidency, to its population and its needs? It appears that for the solution of the agrarian problem reliance ought not to be placed on co-operation alone. It is not a panacea for all economic and other evils and it has its limitations. In Germany where co-operation has proved such a signal success, besides people's banks, there are several important agencies through which land-owners, both large and small, obtain long-term mortgage credit.\* The resources and operations of these Land Mortgage Credit Associations, the Mortgage Credit Banks, the Joint Stock Mortgage Banks, the Savings Banks, the Land Improvement Fund and Annuity Banks and so forth, are on a colossal scale.†

In India very little has been done in this direction and if the co-operative movement were to grow four times as large as it is at present, even then, not much impression will have been produced on the situation. Inquiries made into the economic condition of the rural population in different parts of the country, shows that cultivators and craftsmen are everywhere sunk in the mire of indebtedness and the problem of uplifting them is very urgent. We believe in co-operation and in its educative, elevating value. But even those who appreciate the importance of the movement and are working to help on its progress, feel that more comprehensive and varied efforts must be made to raise the mass of the people to a higher economic and moral status. The Government must directly encourage the establishment of mortgage, land and agricultural banks and must, for this purpose, place funds at the disposal of such banking enterprise. Crores of India's Reserves which are lent in England, may

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\* See J. R. Cahill's Report on Agricultural Credit and Agricultural Co-operation in Germany.

† See Principles of Rural Credits by James B. Morman.

be made available in this country. In France, Ireland, Japan and other countries such State help is given to agriculturists and that example must be followed in India.

Government officials and honorary Indian workers are pushing forward the cause of co-operation with commendable zeal and their endeavours are being crowned with encouraging success. But the ignorance of the rayats is the greatest stumbling block in their way, and in spite of everything that is said about the educational and moral value of co-operation, the true spirit of co-operation is seldom conspicuous among members of co-operative societies. "We regret to have to say," observes the MacLagan Committee, "that the conclusion has been forced upon us that in the majority of cases primary societies in India fall short of the co-operative ideal. Speaking generally, even allowing for the backwardness of the population, there has been found a lack of true co-operation."

**180. Prospects.**—Co-operation is a democratic principle. It is the gospel of self-reliance. But the illiteracy of the Indian masses does not allow them to imbibe and profit by that principle. Members of societies feel that the loans granted to them come from Government and they are profuse in expressions of thankfulness to the Registrar, its representative. They are also inclined, in many cases, to run the societies on commercial lines. Central banks and non-credit societies tend to become profit-seeking, capitalistic concerns, and it is doubtful how far the principle of guaranteeing and other unions can be understood by the ordinary cultivator. The work of starting, guiding and conducting these institutions has, therefore, to be done by a few public-spirited, enthusiastic educated people and they are often found bossing the whole show.

A wider diffusion of education among the masses, a more sympathetic land revenue and general adminis-

stration, an earnest endeavour to stimulate public spirit and an active and comprehensive attempt to promote the economic development of the country on the part of the State and of social reform on the part of the people, are needed to make the progress of the co-operative movement rapid and healthy. Taken by itself, the movement has given good results, and within its peculiar limitations, imposed by the existing conditions, it is capable of rendering valuable service. It is not only in the supply of cheap and facile credit that co-operation will benefit the cultivator and the craftsman; it will and ought to help them in the organization of purchase of seed, manure, implements and raw materials and of the sale of agricultural products and manufactured goods.

If local and communal industries, are thus organized in different localities, the resultant good will be immense. The principle of co-operation can be applied, as it is being applied in a few cases even to-day, in a variety of ways to put larger profits into the pockets of the producers. Certain areas are eminently suited to particular crops and industries. Without disturbing the old order of things, they can be brought within the pale of the co-operative movement. The cotton, sugarcane, potato, groundnut and other crops can be dealt with in this way as also the weaving, leather-making, paper-making and oil-pressing industries. The problem of the supply of pure milk to cities and towns is becoming more and more urgent every day and dairies can be conducted on the co-operative principle. It is satisfactory to notice that endeavours are being made in this direction and it hardly admits of doubt that if they succeed, the resultant good will be appreciable.

**181. Some Noteworthy Points.**—The progress of co-operation in India is looked at from different points of view by critics; and different lines of development are recommended. It is stated that while in other countries the co-operative movement has been

fostered by private effort, in India it has been initiated and is being spoon-fed by the Government. The patronage of the State, however beneficial in the early stages of its growth, will not, it is contended, make for genuine co-operation. The stimulus must come from the people and they must run the movement independently of Government. The State may assist societies, but it must stand out of the movement; otherwise the true spirit of co-operation will die out. On the other hand, many people feel that the co-operative movement will wither away if it is not patronised by Government. The public feels confidence in it because the belief prevails that the Government is at the back of it.

The Registrar, who represents the State, possesses influence with the district and other authorities and can get many things done which co-operative societies, left to themselves, would find it extremely difficult to do. That officer can communicate direct with different administrative departments and has easy access to higher quarters. A co-operative society of cultivators would be handicapped in a variety of ways and would not be able to exercise influence if Government through the Registrar were not behind it. That officer is to members of societies, an authority to whom complaints may be made and appeals preferred. We entirely approve the view expressed by the Government of India with regard to the attitude of officials towards the co-operative movement and think that they should not interfere in it and should not be indifferent towards it either. They should be sympathetic and helpful without being meddlesome.

Here we are confronted with a dilemma. If Government patronises and meddles with the movement, we are told that the growth will not be vigorous; and if it is left to itself, it will not thrive at all. Government audit and inspection will be needed till co-operative unions and banks can take the work upon themselves and can inspire

confidence in the minds of the people. The co-operative organization must be a complete and self-sufficient organism. But it will be many years before that ideal is reached. In the mean time, unions and district and central banks are being started and a kind of solidarity is being created by means of conferences. Men are also being trained to take up the duties of officials of societies because without such training, the working of rural societies is found to be very difficult. It is refreshing to find people scattered in different parts of the country, who are infected with the genuine spirit of co-operation; but that spirit must be wisely diffused. It is a sign of the times that co-operation has begun to figure on the platform of political and social conferences that meet from year to year and the champions of the elevation of the masses must make it an important part of their programme.

When co-operation has barely succeeded in touching even the fringe of the problem of rural credit and agricultural indebtedness, it is too much to expect that it should have spread to non-agricultural industries, to distribution and to consumption. This is a fruitful field and the need of co-operative stores and of societies of consumers in towns is great. But even here the difficulty is to make people appreciate the importance of the movement and to take to co-operation for their benefit. Like joint stock companies, co-operative stores are a novelty to the mass of people and hence the paucity of such institutions. The work of popular education in this connection is, therefore, most urgent and societies which are now being started for housing and other purposes, here and there, are calculated to encourage those who are interested in the progress of the movement.

As things stand, Government has thought it necessary to inquire how far the present lines of development are correct and whether any safeguards must be provided in order to ensure healthy progress. If societies go on multi-

plying without sufficient provision for supervision and inspection, and if they are not inspired with the true co-operative spirit, the movement may be overtaken with a disaster any day. Co-operative banks have also to steer clear of the dangers which threaten ordinary banks, and efficient management and strict audit and supervision must be insisted on. Better that the growth of co-operation should be slow but steady rather than that weak and inefficient societies should be bolstered up or allowed to exist. The fate of the movement in India must depend upon the enthusiasm and the desire of the people to help and improve themselves by combined effort. Education, in the large sense of the word, alone can do it.

**182. Land Banks Controversy.**—There has recently been some discussion of the question whether the agrarian problem can really be solved by the spread of the co-operative movement and whether land banks of the Egyptian type are not necessary to free the rayat from the load of indebtedness under which he is crushed. It is contended on one side that the hopeless condition of the rayat requires a radical cure and co-operative credit is only a palliative.\* It is pointed out on the other side that the history of Agricultural Banks does not show either that they can wipe out agricultural indebtedness or make co-operative credit institutions superfluous. 'Non-co-operative agricultural banks may to a certain extent supplement, but they can never supplant co-operative credit institutions.' †

A little consideration will show that there is an amount of truth in both these positions. The serious problem in India at which the Government has been tinkering for more than forty years, is the appalling indebtedness of the rayat. Co-operative credit societies, which came to be regarded as the sovereign remedy, can

\* D. E. Wacha: *Agricultural Banks in India*.

† See "Wealth of India" for October, 1916, page 513.



not frankly solve that problem. They will only supply short term and personal credit and cannot touch the real evil of the existing and long-standing indebtedness. Unless that millstone is removed from the neck of the helpless cultivators and they are enabled to carry on their operations freely and profitably, their condition must remain unsatisfactory.

Since 1870, Government has tried several measures to make loans to agriculturists on the security of their lands. These attempts should have been persisted in and should have been developed into large banking organizations. The Government considers itself to be the universal land-lord in India ; and as Sir John Strachey observed in 1870, in this capacity duties devolved on it "for the improvement of the land and for the advancement generally of agriculture, beyond the ordinary duties of a Government, and similar in kind to those duties which a good land-lord had everywhere to perform."

If the funds of the State had been liberally expended for the improvement of land and of the agricultural industry generally, the situation would have steadily grown better. The peculiar political and economic conditions in India required such a policy on the part of the State. As it was, the general economic decay and stagnation told on agriculture also, and the position was not adjusted to the rapidly changing circumstances. The system of granting long-term loans to cultivators to be recovered in small instalments, was strongly recommended by the Irrigation Commission of 1903, and their principle was generally accepted by the Government of India in its Resolution on the question, dated 30th November, 1905. But the amount of the loans thus granted has always been meagre, rarely exceeding 6 crores of Rs. for the whole country.

Though this is all true, the importance of co-operative credit societies cannot be gainsaid. They supply a badly

felt want of the cultivator by providing him with credit where he has none. Agricultural operations are thereby facilitated and higher profits are insured. Credit societies very largely perform the same function as agricultural banks, and they are eminently useful to cultivators who have only small pieces of land to mortgage. They enable them to capitalise their honesty and, on the principle of self-help and mutual aid, to improve their condition. This is an aspect of the agrarian and the general economic question which should not be lost sight of by those who belittle the importance of co-operative credit societies.

In India the State has got to undertake several duties which do not fall within the province of Governments in other countries. But in spite of this, if the co-operative movement grows along sound lines, it must raise the cultivating classes both materially and morally. The progress achieved by the people under the influence of that movement, will be more lasting and beneficial though much slower. The conditions in India with respect to indebtedness are in several respects similar to those prevalent two generations ago in the continental countries of Europe where the co-operative movement has now taken firm root. And if co-operation has helped to elevate the masses there, there is no reason why similar results should not take place in India provided other conditions are favourable.

Reviewing the development of rural credits in European countries Mr. James B. Morman observes :—

“ If European experience covering more than half a century of co-operative personal credit and more than a century of co-operative mortgage credit, has any lessons for American farmers, the most important are :—

(1) That organization among farmers, has been the basis of success in the credit system ;

(2) That education in the use of credit has proceeded hand in hand with organization ; and

(3) That personal supervision by the farmers themselves over their organizations and over the use of loans made only for productive purposes has been a prominent feature in the European system.

In no instance has any Government taken the initiative in establishing a rural credit system. When legislation by any national Government has taken place, it has usually been for the purpose of facilitating or aiding the organization of farmers' co-operative societies, and when Government aid has been granted, it has generally taken the form of loans at low rates of interest made to local credit societies through central or regional credit banks, for a Government to take the initiative in establishing, for example, a long time mortgage credit system, would seem to European farmers like trying to make a pyramid stand on its apex."

The State in India may make loans to agriculturists and others through co-operative societies for productive purposes and the MacLagan Committee has drawn the attention of the Government to this question.

**153. MacLagan Committee's Report.**—A student of co-operation in India cannot find a better source of guidance and information than the report of the MacLagan Committee to which we have frequently referred in this chapter; and we commend to the reader a careful perusal of that report. From it he will see what the movement has so far achieved and what it is capable of achieving. He will also know what are the weak and the strong points of the movement; and the directions in which it should develop will be clear to him. We can only offer here a rough and brief summary of that report:—

#### Introductory.

The report starts with a description of the depressed condition of the lower classes and of remedial measures attempted by the State to improve it, and

observes that this action having proved partial and incomplete, Government turned to co-operation as the most hopeful method of dealing with the problem before it. The moral aspect of co-operation is then emphasised and it is stated that to true co-operation alone it is that "Government must look for the amelioration of the masses, and not to a pseudo-co-operative edifice, however imposing, which is built in ignorance of co-operative principles." The development of the co-operative movement is then traced from its inception to the time of the appointment of the Committee. The report then proceeds thus:—

It was inevitable in the beginning that credit societies should be mainly attended to but that a demand for non-credit forms of co-operation should arise was in itself a healthy sign. But such societies should arise spontaneously and satisfy a real need and a competent staff should be available to supervise them and deal with the complicated economic problems involved. Several non-agricultural and non-credit societies have been started for sale, purchase and other purposes. Societies for the benefit of weavers are welcome, but 'attempts to reorganize village industries on a more profitable basis should not be undertaken sporadically or fortuitously.' Certain types of societies like stores, often exhibit a tendency to ignore the moral basis of co-operation and care should be taken by the Registrar that co-operative principles are followed by such societies, and that they do not become merely commercial and profit-hunting bodies.

Though the primary object of the co-operative movement was to tackle the agrarian problem through it, it is necessary that non-agricultural societies also should grow up along with the agricultural. The wage-earning, artisan and middle classes must be brought within the co-operative fold. Middle class urban banks are not strictly co-operative, but in the absence of joint stock banking facilities, they are likely to serve a useful purpose. With regard to banks

for the use of large landed proprietors, corresponding to Land Mortgage Credit Associations, the establishment of well-conceived and well-administered banks of this type "would be a measure of great value not only to the proprietors themselves but also to the Government."

#### Primary Societies.

In the case of primary societies it is on three main requirements that their soundness is based, *viz.* (1) they must be co-operative; (2) they must also be business-like and (3) they must be thoroughly well supervised. The area must be sufficiently restricted to enable members to exercise an effective mutual control, and their number should not be unduly large. Before a society is registered a scrutiny should be made into the kind of men it will deal with and their assets, working capital and so on. Teaching of co-operative principles in various ways must be arranged and proper men must be selected for the post of secretary and as members of the managing committee. Some provision is necessary for ascertaining the previous debts of members and, wherever possible, they may be gradually paid off rather than that they should be immediately cleared on admission. As regards the rate of the progress of the movement, there should be no attempt at forcing the pace and "except for special reasons, an increase in the number of societies should radiate from existing centres of co-operation and should be based on a well-informed desire to imitate existing good examples."

The capital of primary societies is composed of four items, (1) shares, (2) deposits, (3) loans and (4) surplus assets or reserve fund. The value of shares should not be unduly large so as to create disabilities against poor members and a maximum limit should be fixed to dividends. Value of shares may be deducted from loans granted to members and the principle of unlimited liability or rather "contributory unlimited liability" should be adhered to in the case of agricul-

tural credit societies. The amount of deposits locally obtained has been comparatively small and "unless as the movement progresses, there is a substantial increase in this class of deposits it will have to be confessed that co-operation has failed in one of its main objects." Compulsory deposits from members are not desirable; and the term of deposits should not ordinarily be less than one year. Only two exceptions to this rule may be admitted: (1) short-term deposits are useful for temporary accommodation to meet demands for loans, and (2) savings deposits when small sums within strictly marked limits are taken and dealt with on lines similar to those of the Post Office Savings Banks.

The total borrowing powers of a society are fixed by the Central Bank and the Registrar, and the amount the society can lend is determined by this limit. But it is necessary for a society to fix the limit (1) up to which members as a body will pledge their liability and (2) to which members should individually be entitled to receive loans. Loans are given for the ordinary operations of agriculture and much assistance cannot be expected from co-operation for expensive improvements for which recourse must be had to Government. Period for which loans should be given must be carefully worked out in view of the objects for which they have been made. Personal security ought to be the rule and sureties should be made to realise their responsibility. The mortgage of land should only be regarded as collateral security in addition to sureties.

The competition of societies has brought down the rates of outside money-lenders. 'So long as the rates of societies are below those of the outside market, they cannot be regarded as excessive and there are many dangers in sudden or large reductions below such rates.' It must be emphasised that 'unless loans are repaid punctually, co-operation is both financially and educationally an illusion; and no exertions are wast-

ed which aim at ensuring promptitude in this respect. Disputes as to arrears should be referred to the Registrar and if he so directs, to arbitration. The Act provides for this arrangement. There is, however, a great difficulty in securing execution of the decisions; but it will not be advisable to accord to societies the privilege of summary procedure. An effort should be made to build up a reserve fund so as to make the society ultimately independent of outside help. The surplus assets or reserve fund may properly be employed in the business of the society so long as proper provision is made for the necessary fluid resources. Under the Act one-fourth of the net profits must be carried to a reserve fund and 10 per cent. of the remainder may be used for any charitable purpose with the sanction of the Registrar.

Periodical audit and constant supervision are necessary and for this purpose the official machinery must be sufficiently powerful. The audit must be comprehensive and thorough and should be carried out under State control at the present stage of the co-operative movement. The time is distant when the work of making the original audit can be taken up by societies themselves. The work of supervision should be carried out by unions, central banks and other bodies maintained by the societies themselves.

#### Central Banks.

Though the operations of a 'central bank' may cover a larger area, it is usually expected to finance primary societies within a single district or part of a district. Between such a bank and the primary societies, there is, in some Provinces, the link of 'guaranteeing unions' and their number in Burma is large. "The union is registered as a society with limited liability and mutual guarantee is effected by a rule that each guaranteeing society shall be liable for any default by a society in the repayment of a loan recommended by the union to the extent of the maximum amount of its borrowings from non-

members in the twelve months preceding a call." This kind of union is to be strongly recommended as it will be a great accession of strength to the movement.

Central banks perform the double function of balancing (1) the funds of societies and (2) supplying capital. There are now practically no Central Banks which undertake outside business and comparatively few which lend to individuals, but the time seems to have come when steps should be taken to bring to a close in all cases the practice of granting any loans except to registered societies. A Central Bank should cover as large an area as is compatible with convenience and efficiency. Under existing conditions it is much better to adhere to the system of independent central banks than to have branches of Provincial Banks. No loans should be granted to societies which are not share-holders. All shares held by individuals should be fully paid up and the use of reserve liability is to be deprecated.

The total liability attaching to shares, whether held by individuals or societies, should be limited to their face value. A maximum rate should be fixed for dividends, but it should be laid down on some logical principle. The deposits of these banks will not seriously compete with those of joint stock banks. Amounts held on current account should be covered by sufficient fluid resources. Savings accounts may also be opened but certain precautions must be observed. The area from which deposits may come, need not be restricted. The central banks may receive advances from Presidency Banks and joint stock banks in the form of cash credits. The system of debentures is not to be much relied upon in this connection. Loans to individuals are to be deprecated and central banks should not undertake any outside banking work. Credit of societies to which loans are to be made, should be carefully assessed, particularly where there are no unions in existence, and the objects of the loans must be similarly scrutinised.



The period of loans must be conditioned by the period for which deposits are held, as the former, unlike the latter, is within the control of the Central Bank. Unfortunately the practice of many banks is not in accord with this sound principle. Cash credits should be given to societies which are thoroughly well managed and co-operative in character. The security required from societies for loans should ordinarily take the form of promissory notes and not the shares held by them in central banks. Every society and bank must have a reserve fund under the Act, but besides the Reserve Fund proper, which in the case of primary societies, is built up out of the indivisible net profits, there are the 'fluid resources' which must be carefully husbanded in order to enable societies and banks to meet the demands of depositors. In the absence of facilities for discounting co-operative paper this fluid resource should, in central banks, be sufficient to meet half the deposits due for payment within the next twelve months, a standard of one-third being held sufficient in the case of Provincial Banks.

#### **Provincial Banks.**

In each of the major provinces there should be one apex bank which will co-ordinate and control the working of central banks which should be prohibited from dealing with each other or with Presidency or joint stock banks except through its medium. The Provincial Bank should itself be obliged to confine its dealings with co-operative institutions to Central Banks and leave to them the work of dealing with societies. The present organization throughout India is incomplete in this respect. Although in starting a Provincial Bank individual shareholders may have a preponderating influence, representing the business element, its constitution should be so framed as to give to affiliated co-operative institutions an opportunity at no distant date of securing a majority of votes at the general meeting.

The management of a Provincial Bank requires more expert knowledge and experience than that of a Central Bank, and it is desirable that the management should be mainly in the hands of business men. All central banks should be induced to become affiliated to the Provincial Bank, and the latter should grant no loans to societies capable of being affiliated to a Central Bank. Long-period deposits are necessary to Provincial Banks which should gradually accumulate surplus assets and good liquid securities in order that dependence on outside agencies may be diminished. Their fluid resources should be sufficient in amount to cover one-third of the possible liabilities of the Banks falling due in the course of the ensuing year.

The main business of a Provincial Bank should be to co-ordinate and control the finances of Central Banks, utilizing their surpluses and supplementing their deficiencies, and they should not embark in business outside the co-operative movement except in so far as it may be found necessary to lend or deposit spare funds for short periods in outside institutions.

#### General.

It may be generally stated that if provision is made to minimise undue official influence, the movement should not be deprived of the moral and financial support which Government servants give it. None of the powers of the Registrar should be devolved upon the Collectors. In certain Provinces the Collector or subdivisional officer is the chairman of a Central Bank. This practice is found to be beneficial and has its obvious advantages but these officers should not hold positions on the managing committees of central banks *ex-officio* or as an invariable rule. The district officer "would stand as a well-wisher, equipped with the requisite knowledge and sympathy, but need not necessarily have any intimate connection with the management or assume direct responsibility."

It is necessary to co-ordinate economic departments of Agriculture, Industry and Co-operation under

a single officer of high standing in each Province, to be called the Development Commissioner. There should also be an advisory agency at the head-quarters of Government to deal with the many technical and complex problems which are arising in connection with co-operation. This officer should be attached to the Government of India and he should make inquiries and tender advice. Agricultural loans made by Government under Act XII of 1884 and Act XIX of 1883 should be granted to co-operative societies themselves. There exists no agency in India "which can be relied on to provide the facilities of rediscount for co-operative banks, and thereby give to their finance that elasticity without which present stability and the same progressive development of the co-operative movement appear to be difficult, if not impossible". Commercial banks will not voluntarily undertake this work, and if some arrangement cannot be made with the Presidency Banks, under which they will undertake the duty of rediscounting agricultural paper for Provincial co-operative banks, the only alternative solution appears to lie in the establishment of a State co-operative apex bank.

**134. Summary :—**The problem of rural credit is two-fold : (1) to provide long-term credit to the farmer to enable him to pay-off his old debts carrying high rates of interest and to undertake more or less costly agricultural improvements ; and (2) to supply the cultivator with short-term credit so that with its help he may carry on his normal agricultural operations with greater ease and profit. The method of achieving this double object is also two-fold : (1) to start mortgage and other land banks with and without State assistance, so that they may advance to the land-owner and farmer the cheap capital they require for land improvement and other purposes ; and (2) to teach the cultivators to combine with a view to obtaining credit on joint security and carrying on the

operations of their banks and societies on the principle of self-help and co-operation.

The Government in India tried the first method to achieve both the objects stated above, and passed the Land Improvement Loans Act and the Agriculturists' Loan Act in 1883 and 1884 respectively. These efforts were not, however, fruitful and the idea of an experiment of a land bank which was to have been made in the Poona District about that time did not materialise. But the indebtedness of the rayats and their helpless condition attracted greater and greater notice as the years rolled on, and attention was rivetted on the problem by the widespread and disastrous famines which over-took the country in Lord Curzon's time. The question was again examined and it was decided to resort to the second of the two methods stated above. It was believed that by co-operation alone could the cultivator effectively improve his condition and Government decided to help him by passing a special Act. Thus in 1904 was passed the Co-operative Credit Societies Act; and in the light of seven years' experience it was amended and expanded into the Co-operative Societies Act of 1912.

Co-operation not only strengthens the economic position of those who combine for obtaining cheap credit and for purchasing and selling under favourable conditions, but it also exercises a moral and generally elevating influence upon all those who come within the pale of the movement. It teaches self-help and thrift and fosters public spirit. People learn to manage their own affairs and an atmosphere of solidarity, freedom and enlightenment is created. The co-operative movement is making headway in the country, and since the Act of 1912 was passed, societies and unions of societies have been started for purposes other than the mere supply of cheap credit. Guaranteeing unions and district central banks are rising on the foundation of primary societies, and the movement

was growing up so rapidly and widely that Government thought it necessary to appoint the MacLagan Committee to inquire into its position and possibilities.

The essence of co-operation is that the movement should be animated by the true spirit of self-help and sacrifice. Moral and material elevation of the people can be achieved only if they catch the genuine co-operative spirit. It cannot be said that from this point of view the situation in India to-day is quite satisfactory. The ignorance and despondency into which the masses have sunk for generations, impede the progress of the movement. If the State were to patronise and control it too much, the life would go out of it, but it can still help in its progress in various ways. The attitude of Government in India towards co-operations is unexceptionable; its officials sympathise and help, but do not unnecessarily obtrude themselves on the movement. The State may, however, render more indirect help and in a wholesome way, by bringing about a general improvement in the political, economic and social condition of the people.

Co-operation in credit, purchase and sale, is bound to do economic good to cultivators and other producers. There is so much wastage going on for lack of organization in agricultural production and in the marketing of goods. Middlemen, money-lenders and merchants absorb a great deal of what ought to go into the pockets of the rayats, and the economic progress of the nation suffers. Co-operation is, therefore, a powerful lever by which the masses may be raised materially and socially to a higher status and the State and people must do everything they can to promote the development of the movement.

Short-term and personal credit is being provided by co-operative societies, and the gains made must be consolidated before the area of operations is widely extended. Strict audit and inspection by unions and central banks is

necessary and the latter, as well as provincial banks, must bring more capital from outside into the movement. The societies, unions and banks must be conducted on sound lines and then only the true success of the movement will be insured. The problem of long-term and mortgage credit still remains unsolved and steps have to be taken to tackle it. Special banks dealing with this kind of credit will have to be started and land-owners must be enabled to raise capital by mortgaging with them their properties to be redeemed within a fixed period by stated annual payments. Owners of small landed properties and tenants must also be assisted to wipe off their indebtedness and to improve their properties. This is a very difficult question which the State in India has to take up, and it may encourage private enterprise to tackle it.

## Chapter XIV.

### STATE, LANDLORD AND TENANT.

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**153. National Dividend.**—We have so far considered questions relating to the production and circulation of wealth, and must now proceed to discuss certain problems concerning the distribution of wealth. Consumption is the object of all wealth-creation, and the wealth produced by a community, must be distributed among its members in order that it may be consumed. The wealth produced by the co-operation of the various agents, who supply the essentials of production, constitutes a reservoir out of which those agents take out their shares. As Dr. Marshall puts it,

"The labour and capital of the country, acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial, including services of all kinds. This is true, net annual income or revenue of the country, or the national dividend."<sup>\*</sup>

Goods and services produced and rendered to satisfy the wants of the community by means of land, labour and capital, are the source from which these agents are re-

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\* Principles of Economics.

munerated. Each agent has a claim to a share in the common stock, and naturally an increase in the total product means and ought to mean augmentation of these shares. The remuneration which the landlord receives for his contribution to production, is called rent; interest is the remuneration of the capitalist, and wages are the payment received by labourers. The entrepreneur who brings together the agents of production and carries on the enterprise, is rewarded with his share which is called profit. Specialization in production has now proceeded to such a length that different classes in the community have come to control different agents of production, though a combination of these last in the same hands is not uncommon. Shares in the national dividend obtained by these classes, correspond or should correspond to the contributions made by them to the production of wealth.

In a previous chapter we remarked that the problem of production is the most important in India, that of distribution being comparatively subordinate. But this does not mean that the remuneration received by the different participants in wealth-creation, has no bearing upon the economic condition of society. And if one of them takes more out of the common stock than is due to him, the others have to suffer and their loss is likely to affect adversely the aggregate production, and therefore, the interests of the community as a whole. Hence the need of equitable and economically desirable distribution of wealth. The older economists trusted too much to the beneficent operation of competition but the domination of one class over another has led, especially under modern forms of organization of industry, to inequalities and to the rise of capitalism and socialism. The tenant and the labourer in India have not had their due while the landlord and the capitalist have become wealthy and powerful. Being unorganized they have had to be protected by the State in several instances.



**186. Profit.**—Profit is the share of the national income that falls to the lot of the entrepreneur or manager of an industry. It is often times confused with interest and the ordinary remuneration of labour. Profit is, however, like rent, the excess of the selling price over cost of production. The marginal producer is just able to meet this cost, but the producer whose cost is less, derives a profit. In profit, as it is generally understood, there is always an element of wages or interest; but pure profits, in a state of competition, depend upon varying prices and costs.

The profits of Indian cultivators are thus regulated by the prices of agricultural products and the peculiar circumstances under which they produce. In times of scarcity, for example, the prevalent high prices favour cultivators in certain localities while their neighbours are great losers. The unsatisfactory condition of the American cotton crop will thus send up the prices of the Indian staple but in this case it is the middleman who is more likely to get the advantage than the cultivator, though the latter does not fail to derive some benefit. Here luck or chance plays an important part; but permanent profits are the result of permanent advantages and favouring circumstances, which are, however, discounted by competition. The advantage of good soil, cheap credit, irrigational facilities, proximity to markets, utilization of improved manures and implements are these factors. But the profits will diminish or vanish as these advantages are shared by other cultivators. This does not make improvements meaningless because what is lost in falling prices, is gained in a larger output. And here we are speaking only of pure profits.

Profit in the sense of a differential gain, like rent, depends upon certain peculiar advantages vanishing when these advantages vanish. The opening up of a part of the country by railway or the establishment of a new

market in the vicinity, has made agriculture more profitable in certain localities while that advantage is denied to less fortunate tracts in the interior. But pure profit becomes a part of the cost of production and however small it may be, it must be earned by all in order that they may carry on their industries.

Agricultural profits were comparatively steady when different parts of the country were isolated from one another and from the outside world, being disturbed only by scarcity or famine. But now India has been linked to foreign countries by railways and steamers, and competition also plays a more important part than before in the determination of profits. The demand for cotton, for example, in foreign markets, acts upon the price of the Indian staple, and the profits immediately go up with rising prices though they may be intercepted by middlemen as pointed out above, and not always reach the actual producers. While, therefore, the cultivator in India may get out of the soil just enough to maintain himself and his family after meeting the cost of the cultivation, consisting of interest on capital, land revenue or rent and so forth, the profit will be only the wages of labour. A cultivator working on dry land may earn Rs. 16 per acre and on irrigated land twice as much. In certain circumstances, therefore, some margin will be left to him, which will be his profit. A farmer who possesses a large block of land enjoying the benefit of wells or irrigational canals and who has a stock of plough cattle as well as capital for seed and manure, is able to make good profit and is well off. But usually the cultivator is just able to maintain himself and his family with their labour and the income from the land owned or leased must be supplemented by wages earned elsewhere and in other ways.\* Agricultural profit worthy of the name is obtained on irrigated land, for instance, where

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\* See Dr. Meun's *Life and Labour in a Deccan Village*.

sugar-cane and such other crops are grown. Owing to minute sub-division of land and want of capital, the profits of cultivation are usually very small. This fact is brought out in the inquiries which have been recently made into the family budgets of cultivators in different parts of the country.

These remarks apply to the ordinary artisan or craftsman also. Those engaged in domestic industries, the autonomous workers, will normally be able to get just enough to maintain themselves, that is, wages, unless the demand for their products increases and enhances prices. As we have shown in a preceding chapter, they may not be able even to get these wages and may have to give up their callings.

"Taking India, as a whole, although there has been an increase in industrial prosperity and development in the period between the censuses of 1901 and 1911, competition with imported articles and the products of factories, organized on the latest methods and worked by machinery, have ruined many of the handicrafts, especially the handloom industry and compelled people to leave their ancestral vocations for other means of livelihood, notably agriculture." \*

Conditions created by the War, have favoured several classes of producers, who, in normal times, could just make a living or led precarious lives, and they have enjoyed a temporary spell of prosperity; but the profits of these industries must disappear with the cessation of the war, unless economies are introduced in the meanwhile or prices remain at a sufficiently high level.

The profits of industries conducted on modern lines have been large enough. Cotton, jute and the mining industries have a margin left to them which has encouraged the expansion of manufactures. "The number of these is, however, very small. The rise of prices has un-

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\* K. L. Dutta: Report on High Prices.

doubtedly benefited them in as much as the price of articles produced by them, has in most cases far exceeded the cost of production." There are, of course, ups and downs in the condition of these industries, and the scale of profit, in the case of the cotton industry, for example, is regulated by the stocks of piece goods in the market, the price of raw cotton, the supply of coal and so forth. But on the whole, in industries carried on with the assistance of machinery and on a large scale, the rate of profit is sufficiently high. The shares of joint stock companies are quoted at high figures and individual proprietors of such concerns, large and small, share in the industrial prosperity. The new mills and factories which are rising on every side, the gins and presses and the oil and flour mills as also sugar-cane crushers which are being set up, are evidence of the attractive profits that are earned in these concerns. It is also evidence of the diversion of industrial effort from one direction viz. the old, to others, the new manufactures.

**187. Interest:**—The remuneration of capital in India is high, and it is notorious that rates of interest are usurious. There is never a uniform rate of interest anywhere, much less in a country like India. In western countries, the rate steadily fell down till at last it has now been raised by the enormous demand the War has made on capital throughout the world. Where competition has free play and there are banking facilities, variations in the rate of interest are rare; but in the absence of these conditions, it runs very high. It is also high where the supply of capital is inadequate, and millions of British capital have thus been attracted to the Colonies and to foreign countries.

Mr. Datta's inquiry led him to the conclusion that the rate of interest in India was steadily declining. He observes:—

"The rate of interest on agricultural loans varies widely in different parts of India and even in the

same place, according to the credibility of the cultivator or the security offered; thus in Bengal, it is said to be 36 per cent. in Eastern Bengal, 37½ to 75 per cent. in the Central Provinces, anything from 6 to 100 per cent. and in Madras 6 to 36 per cent. It is, therefore, difficult to collect statistics to show whether the rate has increased or decreased. But the general belief is that the rate of interest has been lowered except in some parts where restrictions have been placed by law on alienation of land, thus reducing the value of security. It seems from the evidence collected that this lowering of the rate has been due to increased wealth and a consequent increase in the number of money-lenders who compete with each other in reducing the rate. Co-operative credit societies have also doubtless contributed to these results in places where they have been constituted." †

But as capital is shy in India, it receives a more liberal remuneration than elsewhere. The ordinary producer has no capital of his own and must borrow at ruinous rates of interest. Without the expansion of banking facilities and the spread of education, interest rates are not likely to be lowered in this country. The war has made heavy demands on capital, and for years after the restoration of peace, its supply will be inadequate and therefore interest rates will remain at a pretty high level.

The rate of interest on Government and other securities steadily declined for many years and only the War loans have now pushed it up. In the busy season, the rate for temporary accommodation is high and this rate is always fluctuating. Money-lenders can always command a high return for their capital, and agriculturists, artisans, craftsmen, small traders and other needy people cannot borrow without paying a heavy price. There is an element of risk in these transactions, and the borrow-

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† Report on High Prices.

ers are very needy. Hence the prevalence of usury over almost all parts of the country.

**188. Usury.**—As in western countries, so in India, usury has always been condemned and the State has every where endeavoured by means of legislation, to discourage it. In 1914, the Government of India issued a circular letter to local Governments on the subject of the feasibility of preventing the use of civil courts as an agency for the realisation of usurious demands by money-lenders. The issues raised in the letter were, (1) whether the courts are as a matter of fact at present compelled to give effect to unconscionable contracts and to enforce the payment of inequitable and extortionate demands; (2) whether, if the answer is in the affirmative, this abuse of the authority of the courts has attained such dimensions that it is expedient to take steps to remedy it; and (3) in what manner it can be prevented without engendering consequences more prejudicial to the interests of those concerned than exist at present.

The main remedies, the letter went on to state, for the suppression of usury, were perhaps the following: (1) the fixing of a legal maximum rate of interest recoverable; (2) the determination of a legal maximum amount of interest recoverable, commonly known in India as the rate of *Damdapat*, and (3) the bestowal of authority on the courts to go behind a contract, re-open a transaction, and reduce the rate of interest to what is thought to be equitable. The third line of action has been embodied in the English Money-lenders' Act of 1900.

The Government of India anticipated and stated the various objections that might be raised against the undertaking of any legislation on these lines. For instance, it was contended that it would interfere with private contract, that it would increase litigation and harass the ordinary operations of trade and it would be ineffective. There was much force in these objections, and the results

of the operation of the Deccan Agriculturists' Relief Act, have not proved very satisfactory. The Government of India itself wisely observed, in its letter, however, that it would not be right to argue that 'everything is the fault of the money-lender and that the debtor is always a blameless and injured innocent.'

Usury laws have been condemned by economists as a useless and undesirable interference with liberty, but this condemnation is based on the assumption that the loans rest upon the equality of business opportunity and the free competition of capital. "Under such conditions," Seligman points out,\* "usury laws are futile and worse than futile, because they either tend to evasion or become a drag on industry". Where these conditions do not prevail, and the lender is in a position to take an unfair advantage of the borrower, it is necessary to protect the latter. Laws in France, England, Germany and America, grant such protection to the borrowers, and in a country like India measures of this kind were absolutely necessary. As Gide points out, "it is no more of a contradiction to allow liberty as regards the rate of interest, while punishing those who make a profession of lending at a high rate, than it is to allow consumers the liberty to drink, while punishing publicans who supply drunken men."†

The Government of India at last brought a usury bill, based upon the ideas referred to above, before the Supreme Legislative Council. The object of the measure was approved on all hands and the passage of the bill through the Council, was not a difficult matter. The bill became law on 2nd March, 1918.

**189. Rent from Land.**—Having so far dealt briefly with the shares in the national dividend taken for the supply of business organization and capital, and reserving

\* Principles of Economics.

† Political Economy.

for the next chapter the consideration of the remuneration received by labour, we shall proceed to the consideration of the share of the remaining participant in production, *viz.* land. The word 'rent' is used in common parlance to connote the price paid for the use of a thing *e. g.* a house, a machine or a carriage. But more often it is associated in the popular mind with the price paid or obtained for the use of land. This income from land is irrespective of the returns received for the capital invested or the labour expended, and the theory which explains the emergence of land rent is famous in Political Economy.

"Rent is due to *natural* variations in soils, or to the varying advantages given to sites, not by the owners of the sites, but by the distribution of population and the means of transport. If the payment of rent were stopped, the fertility of good soils and the convenience of good sites, would not diminish; for the rent receivers did not create and do not maintain that fertility and that convenience."†

This character of land rent, the limited supply of land, the national and economic importance of the food and raw materials land produces, the social effects of the possession of land by a certain class in the community,—all these factors have invested the question of rent with a peculiar interest. How land is held and owned, how it is hired out, how its produce is distributed and how the community is affected by land laws and land rent, are questions which have been hotly debated in all countries. Schemes of land nationalization and of a single tax on land, have been discussed and the heavy taxation and absorption by the State of 'unearned increment' have been advocated. It is, therefore, necessary to deal here with the question of the land tenures which prevail in India, particularly because agriculture is the predominant

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† *Henry Clay : Economics.*



industry of this country and the welfare of the mass of the population depends on the system of land tenure and the share of the rayats in the produce of the lands they cultivate.

**190. Hiring out Land.**—The proprietor of land may either lease it to farmers and tenants or cultivate it himself. If the land belongs to the community, the Government is the proprietor and leases it to tenants, who pay rent to it. If private individuals are proprietors, they receive the rent from their tenants. Where the first system prevails, there is complete nationalization of land which is the ideal of many socialists, who regard landlords as parasites. The second system prevails very largely in England where the bulk of the land is owned by private proprietors. Hence the agitation in that country against unearned increment and the nationalization of land. Thirdly, the proprietor may cultivate the land himself, and France is the classical example of this system which also prevails in America. It is a system which is highly praised by economists and is held up to the imitation of nations where tenants cultivate the lands of proprietors.

Under certain circumstances, farm tenure is economically beneficial and socially unobjectionable. If the landlord takes interest in his land, puts capital into it and improves it, the fact of its being let out to a farmer cannot be urged as a disadvantage of the system. But such landlords are few, and generally land is neglected and tenants are oppressed. In the hands of the peasant proprietor, on the other hand, owing to 'the magic of private property,' land becomes more productive and from the point of view of society, this is very desirable. Even where land is hired out, the Metayage system,—under which the rent is payable in kind instead of in money and consists in a proportion of the crop instead of being fixed for a term of years,—is preferable.

More has perhaps been written about the systems of land tenure in India than in any other country, and it is after a prolonged and elaborate investigation and discussion that the rights of various parties such as the State, the different grades of landlords and of tenants, have been determined with anything like precision. For more than 125 years, these questions have been debated and even now the controversies are not at an end. Many held and hold to-day that the State in India is the universal landlord, and therefore the land revenue received by Government is not a tax but is a rent which a proprietor may claim from his tenants. They, therefore, feel that land nationalization, which is only a distant and perhaps an unattainable ideal in other countries, is an accomplished fact in India except in those places where the Government has deliberately conferred the proprietorship of lands upon individuals. It is, therefore, usual to exclude land revenue from the amount of the burden of taxation that falls upon the people, as it is supposed to constitute rent which tenants have to pay to the landlord, whether he is a private individual or the Government.

**191. State-Landlordism.**—State-landlordism in India is not a mere theory; it underlies the land revenue policy of Government in actual practice. If the State is the landlord, it is entitled to take away the whole of the rent, leaving to the occupant the ordinary profits of agriculture which in practice may amount to bare subsistence and little more. Land rent is not always pure economic rent, being sometimes more and sometimes less than it, and Government in India, though it considers itself as the universal landlord, does not presume to take the whole of the rent but only a share of it.

It is not officially denied that the portion of the income from the land claimed by the Government "was excessive and that the State demand was steadily mode-

rated.\* Lord Cornwallis's Permanent Settlement proceeded on the principle that the State was the proprietor of the soil. In that capacity it renounced its rights to a progressive share in the rental of the land. But it was the *rent* which was renounced; it was not *revenue*.† Mr. Wilson told the Legislative Council in 1860 that 'land revenue could only be regarded as rent,' and Mr. James Mill spoke in 1831 of *rent* of land in India, having always been considered the *property* of Government. Though few have the hardihood now to reiterate the theory of state landlordism in all its nakedness in the face of its repudiation by authorities like the Court of Directors, the Secretary of State and officials and others who have studied the question closely, the land revenue policy of the State is actually animated by the exploded belief and veiled references are made to it from time to time.‡

The assertion is found repeatedly made that land has, in the East, belonged to the sovereign from time immemorial, and that the British Government in this country only accepted the principle and followed the practice of the old rulers. John Briggs†† has examined the subject at great length and combated the assertion about the State being the universal landlord in the East. He observes :—

"The preceding portion of the book has, I trust, proved that the occupant of the land alone was its sole proprietor; that the demand on him for contributing to the support of the State, was a sort of income tax,

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\* See Government of India's Resolution on Land Revenue Policy, 1902.

† Sir Louis Mallet.

‡ See G. V. Joshi's Writings and Speeches, page 573.

The survey tenure of the Bombay Presidency is described as the right of occupancy of Government land continuous in perpetuity on payment of Government demand and transferable by inheritance, sale, gift or mortgage without other restrictions than the requirement to give notice to the authorities.

†† The Land tax in India.

via a limited portion of the produce of his estate and that this portion was fixed in the time of peace but liable to increase in time of war and that under all circumstances, it left a certain surplus profit to the owner, equivalent to a rent. Moreover, I hope I have established that the sovereign never claimed to be the proprietor of the soil, but of the land tax he collected through local agents and expended it in such a way as the Government thought fit."

In a despatch to the Secretary of State, dated 8th June, 1880, Lord Lytton's Government observed :—

"We do not accept the accuracy of the description that the tenure (of land in India) was that of cultivating tenants with the power to mortgage the land of the State and that land is the property of Government held by the occupant as tenant in hereditary succession so long as he pays the Government demand. On the contrary, the sale and mortgage of land were recognized under the native Governments before the establishment of British power.....It has been one of the great objects of all the successive Governments of India since the days of Lord Cornwallis, if not to create property in land, at all events to secure and fortify and develop it to the utmost. The Government undoubtedly is the owner of a first charge the amount of which is fixed by itself on the produce of all revenue-paying land in India; but over the greater part of the Indian Empire it is no more the owner of the cultivated land than the owner of a rent charge in England is the owner of the land upon which it is charged. If the charge is fixed so high as to leave nothing for the cultivator, such a maintenance as will keep him from deserting the land, it may of course be said either that property in land does not exist or that it is worthless."

The old rulers never claimed to be the proprietors of the lands of their subjects, and for the expenses of Government took a certain share of the produce of the

fields, estimated at from one-tenth to one-sixth. The Mahomedan kings followed this practice and sometimes may have raised the share to one-third. So long as the tax was taken in kind, the system was most elastic and, in fact, the actual collection was adjusted to the yield. Even when in later years the grain share was commuted into money payment, the same elasticity was maintained and Government rarely worked up to the standard rates laid down.

**192. Right of Proprietorship.**—The British officers who were confronted with the task of revenue management in Bengal in the last quarter of the 18th century, were totally ignorant of the old system of land tenure and of taxation. They were confounded with the chaotic condition into which the province had been thrown and the conflicting claims which were put forward to proprietorship of land. Old records were searched and scrutinised and different systems of assessment and collection were tried. But the confusion continued and at last Lord Cornwallis felt that there was only one way out of the difficulty and it was to recognize the hereditary landlords, collectors and farmers of revenue viz. the Jamindars as proprietors who were to be held responsible for the payment of the dues of Government.

Baden Powell has given an extremely interesting account of the different ways in which, in the course of history, rights of proprietorship developed in the different parts of India. The old rulers levied a tax on all lands except those which were deliberately exempted from it viz., lands possessed by court favourites or persons who were rewarded for their services to the state or religious institutions. Jahagir and Inam lands were of this class. Lands really belonged to those who or whose ancestors had cleared and reclaimed them. But in the vicissitudes of fortune, in times of foreign invasion and civil wars, these proprietors were dispossessed and were

reduced to the condition of tenants. These conquerors were themselves later on made to give up their ownership when another wave of invaders or immigrants came, and they became tenants of a superior kind.

Old princes and chiefs who were thus brought under subjection, were often, as a matter of policy, continued in possession of their lands on condition that they collected and paid into the public treasury the tax levied upon their tenants, deducting and reserving a certain share thereof for themselves. Farmers of revenue and revenue officers of Government often made the lands, whose revenue they collected, their private property. Leaders of turbulent and restless tribes took advantage of the confusion of the times and also became proprietors. Several families of *Jamindars* and *Talukdars* thus came to have a share in the produce of the fields cultivated by inferior holders and tenants. They and village leaders were recognized by the British Government who settled with them what they were to pay to the State out of the rents they received.

**193. Different Tenures.**—The first two generations of British rule in India were spent in experiments in land revenue settlement. In Bengal the State dealt directly with landlords, and the tax levied on them was made permanent. This system was also adopted in north Madras. But in the North-Western Provinces, proprietors of large estates, *Mahals* or villages, jointly held by them in certain shares, were recognized and a lump assessment was levied on the rents received by them. In the Punjab land was generally held by peasant proprietors living in village communities, each village collectively paying the land tax, which was revised at each new settlement as in the North-Western Provinces. Government in Madras was inclined to recognize such village communities they found in existence there though the ties which bound the proprietors of land were not, like those in Northern India, ties of

blood and common ancestry, supposed or real, but ties of a long residence in the same locality and of common interests. But the village community was there not recognized and was broken up when the Rayatwari system was introduced in the Madras Presidency.

In the Madras Administration report of 1855-56, rayatwari is thus explained :—

“Under the rayatwari system every registered holder of land is recognized as its proprietor—pays direct to Government. He is at liberty to sublet his property or to transfer it by gift, sale, or mortgage. He cannot be ejected by Government so long as he pays the fixed assessment and has the option annually of increasing or diminishing his holding or of entirely abandoning it.”

The system in Bombay is also rayatwari and the so-called ‘occupant’ is as much a proprietor of his land as his brother, the Jamindar of Bengal, the only difference being that in the case of the latter, the land tax is perpetually fixed whereas in the case of the former, it is liable to enhancement.

“In Madras, the Government itself has stated that the distinguishing feature of rayatwari is the limitation in perpetuity of the demand of the State, on the land. The rayats have thus all the advantages of the Zemindari tenure, while the State has a valuable reserve of waste land, whence as cultivation extends, its resources will be augmented so as to meet the increasing demands on its finances which the progress of the country will entail: and in practice this leading principle of rayatwari has never been infringed.”

But this principle of rayatwari is not observed in Madras and Bombay, and at each periodical revision the land tax is screwed up on the implied principle that the State is the landlord and is entitled to receive an increasing amount of rent from its tenants.

Three points must here be noted :—(1) The person with whom the State has settled its land revenue is the proprietor of the land, be he a Jamindar, a village community or a brotherhood or a peasant cultivating his own land, and in whatever manner the right of proprietorship may have been acquired. There may be inferior proprietors under them or proprietors having superior rights over them. The status and the rights of these have been now settled and their shares have been fixed; (2) except in Bengal and a part of Madras, the tax levied upon the Jamindar, the joint village, the brotherhood, the Malguzar, and the Talukdar, is subject to a periodical revision; and (3) in the case of landlords and joint village communities, the tax is a certain proportion of the rental or net assets, and in the case where the State deals direct with the actual cultivator, the tax is supposed to be a share in the net produce of each field.

**194. Effects of the System.**—The economic significance of these features of the principal systems of land tenure in India lies in their effect upon the condition of the agricultural industry and the cultivating classes. Where a Jamindar, a Talukdar, or a Malguzar has been recognised or created by Government to stand between itself and the tiller of the land, the State takes a certain well-defined share of the rent received by that landlord from his tenants, say 60 per cent. Such a large share could be justified on the ground of State proprietorship of land, but if it is a tax, it appears to be comparatively too heavy. In cases, as in Madras and Bombay, where the State deals direct with the cultivators, the State is supposed to step into the position of the landlord and to take a portion of the economic rent from them. If the Government is not the landlord, its revenue is not rent, and this land tax of 50 or 60 per cent. and more,—at one time and in certain areas, it was avowedly as high as 70 per cent.—must be a crushing



burden upon the agricultural industry and cannot but have acted prejudicially upon the condition of the people. What is more, the burden is liable to increase at every settlement because the State as landlord claims an increased share in the net produce of the land.

These effects have been felt by the rayats for generations, and the State was itself moved to soften the rigour of its system. The latter fact is alone a sufficient condemnation of the system of land revenue under which the State presumes to take rent from cultivators in its capacity of universal landlord. The system has become out of date and must be radically altered. But so long as the principle of State land-lordism is there, animating the fiscal policy of Government, mere palliatives will be of no use. In the matter of other industries, if a tax tends to fall on capital and to hamper their development, the State is called upon to and does refrain from imposing it. The agricultural industry, however—the premier industry of the country—one which is admittedly in a deplorable condition, is exposed to a heavy tax which may amount to the economic rent. In his minute on Indian land revenue, Sir Louis Mallet remarked :—

“On the one hand, we see a system which sweeps into the coffer of the State fifty per cent. or more of the net produce of the soil, thus diverting a fund which, in countries where private property is absolute, would to a great extent, find its way back again into channels of agricultural improvement. But the amount of the produce thus diverted is not only large—it is also uncertain.” \*

The old rulers did tax the land, but never set themselves up as the proprietors. They took one-sixth or one-eighth of the gross produce and the tax was taken in kind. Metayage prevailed largely in India as it prevails in certain parts to-day, and was very advantageous to the

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\* See Dad's "Open Letters to Lord Curzon", pages 184-185.

cultivator. The Government took as a tax a share of the grain actually produced, and this tax varied according to the quantity of the yield. The commutation of the payment of corn into money payments and the rigidity of revenue collection, deprived the system of all elasticity and made the lot of the cultivator harder; and thus was it that sympathetic and careful students of that system, like James Caird, felt inclined to suggest a restoration of the old Matayer system. Taking the system as it was, Mr. Caird also recommended the conversion of the rayat's tenure into a free-hold. He wrote :—

" Whilst the majority of the Indian cultivators may indeed find it necessary to adhere to the Native principle of continuous tenancy, a Government such as ours in India, should offer every facility for changing the tenure to free hold, both because it can be done without loss of revenue and when done and in the process of doing, that change would enlist the willing help of the most numerous and most industrious classes in improving the yield of the land and unite their interest with that of the rulers through whom their possessions would be assured."

**195. Reform Needed.**—A flourishing and contented peasantry is the backbone of a nation, and agriculture may be described, at least in India, as a 'key industry'; and it is necessary for the State to pursue a policy which will promote the economic well-being of the cultivating classes. It is for this reason that a peasant proprietorship is favoured in all countries. That is also the reason why a moderate assessment of revenue, which will not be enhanced for a pretty long period, if not a permanent settlement of it, has been recommended to Government.\* If there is an outcry in England against land-lords and their unearned increment, the conditions there are quite different from those in India, and the

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\* Dutt's "Open Letters to Lord Curzon."

policy of the British Government in ameliorating the condition of the Irish tenantry is an example in point. John Briggs writes ;—

"We have but one alternative, and that is to acknowledge, in the first place, the fallacy of that doctrine which assumes a right to take the whole surplus profit from the land-holder, and to recognize the *opposita maxim* that the more which is left in his hands the greater will be his means to contribute to the national wealth, and consequently to the public revenue. †

But if the State does not, in its capacity of land-lord, take rent from the rayat, some one else will, as rent must be paid for land. No. If the cultivator is the real proprietor, the Mirasdar, § as in the Deccan, under the old rulers, he has no rent to pay, though he may pay a small land tax. The bulk of the agricultural profits will remain to fructify in his pocket. Is not the cultivator, however, extravagant and is it not better that the surplus produce should be taken by the State to be usefully spent on social improvements ? We leave this argument to refute itself. It will take us into the realm of the theory of taxation but, at any rate, it knocks the bottom out of the theory of State land-lordism. If the cultivator is extravagant, the artisan, the craftsman, the labourer, are all equally so, and if in a general and equitable system of national taxation, the cultivator must pay a land tax at a certain rate let him be made to pay it by all means. Bu

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† The Present Land Tax in India.

§ "The Mirasdar was the freeman of the village, his land was heritable and transferable and he held at a fixed assessment, though under the Marhatta Government he was liable to demands on account of extra cesses. In former times the name of the Mirasdar carried some degree of distinction with it, and the position was regarded as an enviable one.....The most remarkable incident of the tenure was that it was nominally at any rate not subject to forfeiture for default of revenue payment or even for the abandonment of his village by the Mirasdar unless he was absent for a longer period than thirty years."—Selections from the Records of the Bombay Government, No. DXXIV—New Series.

then do not regard him as a tenant—an occupant of Government land paying rent to the State.

It is also urged that the value of land is steadily going up and that it is an indication that the burden of the land tax is not heavy. There is so much subletting of land in the country, it is contended, and the undertenant's can afford to pay rent to the occupant of land and maintain themselves decently; land revenue is likewise paid without any difficulty;—all which goes to show that the *rayatwari* and other Indian systems of tenure do not press on the agricultural classes. Land and rental values have indeed risen in certain parts of the country, and the competition of people who have no other means of subsistence and who have overcrowded the agricultural industry, is probably more responsible for this phenomenon than any thing else. The immobility of population, the dignity which is associated with farming, the prevalent notion that land offers a superior security for investment, are also causes which are present in varying degrees in different places. The Indian cultivator again is not to be compared with the English or American farmer, armed with capital and carrying on his industry on a large scale.

**196. Protection of Tenants.**—While, therefore, it is necessary that the theory of State-landlordism should be given up, peasant proprietorship should be encouraged and the land tax should be moderated so as to leave more in the hands of the cultivators, it is equally necessary that the interests of tenants and subtenants who pay rent to private landlords, should be properly safeguarded. The State has a duty to perform as much towards the tenants of the *Jamindars* and other landlords whose rental it shares as towards the peasant proprietors, the *rayats*, whom it directly taxes. When Lord Cornwallis settled with the Bengal *Jamindars* and made the tax they had to pay permanent, he expected not only that the payment of State revenue would become secure, but also that the land-

lords would improve their estates and that the condition of the tenants under them would steadily become better.\* But these expectations were not fulfilled and the state of the Bengal tenantry continued to be deplorable for two generations.

The land tax in Bengal was pitched sufficiently high, being nine-tenths of the rental, and as it was permanently fixed, the tenants could not pay their dues to the landlords. The tenants had little protection against exactions and were harshly treated. Security of State revenue required that the Jamindars should be enabled to collect their rents from their tenants with ease; otherwise they would not be in a position to pay the land tax to Government. Regulations passed in 1812 and 1822, gave little relief to the tenants, and one important duty of the State which ought to have been discharged early in the last century and which practically formed a part of the general policy of the Permanent Settlement, was neglected.

Tenants, all the world over, require protection against landlords, and it is extended to them in the form of fixity of tenure and fair rents. While the Government of India dealt with the Jamindars and took as its share a certain portion of the rental, it left them to collect whatever rents they could from their tenants. For a long time the status and rights of different kinds of tenants in the various Provinces had remained in a condition of uncertainty. Inquiries were, however, made, and in the course of the latter part of the last century, the position of the tenants was defined and their rights were secured. This is a piece of work done by the State, the importance of which it is difficult to overestimate.

As we have already pointed out, landlord rights had grown up in a variety of ways, and it was no easy task

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\* "I should hope that the profits of the Zamindars would in time exceed this proportion (nine-tenths of the rental) by a due attention to the improvement of their lands and the encouragement of their Rayats."—John Shore.

to determine the landlords' relations to the different kinds of tenants. A wave of immigrants came into a province and reduced the landlords there, the descendants of the first settlers, to the position of tenants. The latter had rights, however, which were superior to those of the other cultivators who came later. Thus there were in Bengal the Talukdars and Tenure holders who occupied a specially favourable position which had to be recognized; and the Khod-khast rayats or those who cultivated the lands where they resided, were, therefore, given leases without any limitation of period as against the Pykost rayats or those who cultivated the land of villages where they did not reside, and who held their lands upon a more indefinite tenure. Tenants-at-will stood on the lowest rung of the tenure ladder.

**197. Tenancy Acts.**—It was in the year 1859 that the first modern Indian tenant law was made in Bengal, and in 1865 the Bengal Tenancy Act was passed, removing the defects of the earlier legislation and more elaborately securing the status and privileges of all classes of tenants.

"The Act provides that every rayat who has held any land in a village for 12 years, acquires thereby a right of occupancy, and 80 to 90 per cent. of rayats have such rights. A small number of rayats hold at fixed rates of rent and the remainder are without a right of occupancy. Even the latter, however, cannot be ejected except in execution of the decree of a competent court, nor can their rents be enhanced at shorter intervals than five years. The Act was amended by Bengal Act I of 1907, with the object of giving greater facilities to landlords for the collection of rent and at the same time of guarding against enhancement of rent by collusive compromises, and removing the ambiguities, anomalies and defects brought to light by twenty years' experience of the working of the Act." \*

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\* Decennial Report on the Moral and Material Condition of India, 1903.

The Bengal Act of 1859 was extended to the North-Western Provinces and it gave the right of occupancy to all tenants who had occupied their lands continuously for 12 years. The Agra Tenancy Act of 1901 provided that the change of a holding or dispossession for less than a year should not operate as a break in the period of twelve years. It also provided that a lease, unless it was for at least 7 years, could not bar the accrual of occupancy rights, the object being to induce landlords to grant their tenants long-term leases even if they did not wish that the tenants should acquire any rights. The rights of non-occupancy tenants also have been secured and if their rents are enhanced, they are entitled to hold lands at those rents for at least five years.

The position of the tenant in the Central Provinces is much stronger than elsewhere. There the Government determines, at each settlement, not only the amount payable to itself by the landlord, but the rent he is to receive from his tenants. The right of the "absolute occupancy" tenant is heritable and transferable, subject to pre-emption on the part of the landlord, and includes fixity of rent for the term of the settlement. The occupancy tenants have their rents fixed at settlement which are liable to enhancement by a revenue officer at intervals of not less than ten years. The position of 'absolute occupancy' tenants is special and their rights cannot be acquired, but the rights of the other class can be obtained by the payment of a premium of  $7\frac{1}{2}$  years' rental. By the act of 1898 the rents of non-occupancy tenants have been fixed at settlement and exorbitant rents are liable to be reduced, the right of transfer being withdrawn as in the case of occupancy tenants.

In the Punjab, half of the land is cultivated by peasant proprietors and some ten per cent. is held by tenants, who, on historical grounds, have been recognised as occupancy tenants with special rights and the remaining

40 per cent. is held by tenants-at-will. Occupancy tenants are protected by law from arbitrary ejectment and enhancement of rent. The other tenants may be ejected or have their rents enhanced, but if they are ejected, they can claim compensation for improvements made by them. By the Alienation of Land Act of 1900, the Punjab Government sought to remedy the evil of the passing away of lands into the hands of moneyed classes from the possession of the old agricultural tribes, by imposing restrictions on alienation.

In the Jamindari areas of Madras, the rights of tenants have been secured by the Madras Estates Land Act of 1909 which repealed and re-enacted the old Madras Rent Recovery Act of 1865. The main principle of the Act is that every cultivator admitted by the landholder to the cultivation of the estate lands has the status of an occupancy rayat who is protected against eviction so long as he continues to pay the prescribed rates of rent. Enhancement of rent is allowed only on certain clearly defined grounds and a non-occupancy tenant also may acquire occupancy rights under certain conditions.

**198. Bombay Tenures.**—In the rayatwari tracts of Madras and in Bombay, the rayats are in reality, as we have shown above, proprietors of their lands, subject to the regular payment of the land tax to Government. There are other tenures in the Bombay Presidency besides the rayatwari or survey tenure, but they are confined to small areas and to a small section of the population. There is the Inam tenure, under which Government has alienated a part or whole of its claims to revenue. Grants of full or partial exemption of land revenue were made by former rulers as a reward for services done or to be done and to religious institutions. They have been continued on certain conditions and services have been commuted, in several cases, into money payments. The Talukdars of Gujarat are the descendants of old ruling



families, and pay *Jama* to the Government which is either permanently fixed or liable to enhancement. There are also the *Vanta*, *Mehwasi*, *Narwadari* and *Bhagdari* tenures in Gujarat, under which the landholders pay to Government either a quit rent or the usual assessment.

The *Khots* of Ratnagiri and Kolaba districts, were settlers of villages and collectors of revenue, on whom proprietary rights were conferred. The class of cultivators called *Dharekharis*, who are the descendants of old settlers, are not their tenants, however, and only pay the survey assessment, thus occupying a privileged position. But other tenants have to pay to the *Khots* certain additional amounts, and the land-lords are responsible for the collection and payment of the assessment into the Government treasury. In Ratnagiri this tenure is governed by a special Khoti Act of 1880, which has not, however, been extended to Kolaba as it should have been. The question of protecting the tenants of peasant proprietors or survey occupants in the Presidency, is under the consideration of Government, as it is felt that the rights of these tenants also require safeguarding.

There is nowadays a tendency among the tenants of private landlords to show a spirit of independence and to resist any extra demands of a feudal character made upon them by their landlords who never lose an opportunity to raise their rents. As elsewhere, there are good landlords and bad landlords in India, and the position of tenants will not improve unless their relations towards those whose lands they cultivate are regulated by contract rather than by custom. The relations between the two parties have, therefore, become strained in several places. The inquiry into the condition of the tenants of indigo-planters in Champaran in Bihar and the agrarian legislation it has recently led to, revealed an astonishing state of things there. The *tin-khatid* system under which the planters compelled the tenants to

grow indigo in certain selected portions of land, the low price which was paid for the produce, the exactions which were levied upon the cultivators under the names of *Sharabesi* and *tavan*, have all been condemned and the tenants have been emancipated from their condition of serfdom by the recent law which was strenuously opposed by the indigo-planters, a majority of whom are wealthy Europeans.

**199. Redemption of Rent.**—The provisions of the tenancy laws are calculated to make the cultivators feel a sense of security and freedom and to encourage them to pursue their calling with greater interest. These measures are, therefore, economically and socially most beneficial. The landlords complain that their rights have been invaded and that the laws press severely upon them. The ideal system of tenure is that which makes for efficient farming and creates a happy peasantry. The tenancy laws must be so framed and worked that friction between landlord and tenant will be minimised and not intensified. In England, agricultural income is assessed to the income tax and the land tax is allowed to be redeemed, producing barely three quarters of a million at the present day. Certain important concessions and deductions have been allowed since 1896 with regard to the payment of the land tax. We should like to see this system introduced in India.

There is, likewise, an obligation upon the State to impose upon itself the same restrictions in its relations with the rayats and landlords whom it taxes, as are imposed upon landlords by the Tenancy Acts. It has, therefore, been suggested that the rayats should be allowed and assisted to redeem the obligation to pay an annual land tax, and to change the tenure to freehold property,—at least to lighten the burden of the land tax so long as this is not done. Similarly with regard to private landlords, it has been suggested that the State should

encourage and facilitate the redemption of rent and other charges paid by the rayats to the Jamindars and revenue free and tenure holders. This is the direction which agrarian reform should take if a prosperous, sturdy and contented peasantry is to be created out of the present thriftless and poverty-stricken mass of cultivators.\* We shall refer to this question again in the chapter on Taxation.

It is sufficient to remark here that land should be held in such a way that the tenure will promote social well-being. The problem indeed is not easy. If land passes into the hands of non-cultivating classes, agriculture is likely to be neglected, but it will be equally neglected or will be inefficiently carried on if the cultivators are men without capital and enterprise. Land will pass to those who save from those who do not and cannot save whatever measures the State may take to prevent this transfer. Lord Cornwallis, it was believed, brought English ideas into this country, unsuited to its peculiar conditions. It was proper that English landlords should be supported so that they might supply senators, sages and heroes to the nation. In India, however, it was stated, 'we do not want generals, statesmen and legislators—we want industrious husbandmen'. The State has, however, to guard against the danger of having neither an opulent nobility nor a sturdy yeomanry. That is the problem to be faced.

**200. Summary.**—The total wealth produced by the various agents of production by co-operation with one another, is the national dividend out of which they take their shares as remuneration for their contribution. Profits are the exceptional gains obtained by organizers of industries owing to peculiar temporary advantages, and usually they are nothing but wages of a kind of labour. Except

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\* Read Renard's "Prussian Land Legislation and the Bengal Tenancy Bill" in his *Essays on Indian Economics*.

in the case of certain crops and in certain circumstances, the agricultural industry does not yield profits to speak of. Ordinary handicrafts and industries are in this respect not very different from agriculture. But many of the manufactures and trades, are a source of profit to the captains of industry and men of enterprise.

The rate of interest is pretty high in the country, and the number of people who earn interest in this way is considerable. Before the outbreak of the War, there was a tendency for the rate of interest to go down; but now it has shot up to a high level. Those who formerly invested in Government and other securities, were contented with  $3\frac{1}{2}$  or 4 per cent; and now those who have money to lend can get as much as 6 per cent. and more. The professional money-lenders are not satisfied even with this high rate, accustomed as they are to 15 and 20 per cent.

There is rent, the remuneration of the landlord, and it rises with the increase of population and the increase of prices. Economic rent is not, therefore, the result of the landlord's labour and the taxation and absorption of it in the interest of the community, is always recommended. Private property in land is defended on the ground of social utility, and the systems of land tenure prevalent in a country, the share of land produce falling to the lot of the tenant and the rent which is extorted by the landlord, are questions of great importance from the point of view of large classes in society and of the community taken as a whole.

Peasant proprietorship under which the cultivator of the land is also its owner, is commended as most beneficial, economically and socially; and where landlordism prevails, efforts are made to emancipate the tenantry and to encourage peasant proprietorship. In India, the State acts on the theory that it is universal landlord and

is therefore entitled to receive rent from the land of the country. Government must, therefore, either act upon the principle that the land revenue is merely a tax on agricultural profits or so lighten the burden of the revenue demand that cultivators should be encouraged to improve their own economic condition by the larger margin left in their hands.

In all Provinces where the State deals with the landlord, leaving him to receive rent from his tenants, it has taken legislative measures to protect the latter from exactions and ejection. These measures were overdue, but now the interests of tenants have been properly safeguarded: "Occupancy tenants have been created and enhancements of rents are controlled. The status and the rights of tenants as against landlords, have been made definite and even those who do not occupy a special privileged position, have been given some protection." In Rayatwari tracts, rising prices of agricultural products, have led to enhancement of rents, but landlords elsewhere can make such enhancements only under certain well-defined conditions. In the Central Provinces rents to be taken by Malguzars are fixed by Government at each settlement.

Landlords do not, of course, approve of such restrictions imposed upon their liberty to deal with their tenants. From the social point of view, the protection of the interests of tenants is absolutely necessary, but landlords would not be wrong if they claim to be as justly and liberally treated as the State wishes that their tenants should be treated. The relations between landlords and tenants are, in places, becoming strained and the latter are no longer willing to be governed by custom. This is perhaps inevitable under the circumstances, and the State has always to support the weaker party. Care should, however, be taken to see that the rights of landlords are not unnecessarily sacrificed. Members of non-agricultural

classes hire out their lands and there is competition among tenants who pay high rents. The State has been anxious that lands should not pass out of the hands of cultivators, and in the Punjab legislation has been resorted to for the purpose of restricting the cultivator's power of alienation. In Bombay a new non-alienable tenure has been created, but there is no tenancy law.

## Chapter XV.

### WORKMEN AND WAGES.

#### REFERENCES

Marshall : *Economics of Industry* ; *Prices and Wages in India* ; *Indian Factory Commission's Report* ; *Report of the Assam Labour Inquiry Committee* ; S. H. Fremantle : *Report on Inquiry into conditions of labour in the United Provinces* ; Keatinge : *Rural Economy in the Bombay Deccan* ; *Provincial Land Revenue and General Administration Reports* ; K. L. Datta : *Report on an Inquiry into the Rise of Prices* ; *Decennial Report on the Moral and Material Progress of India, 1913* ; *Annual Reports of Inspectors of Factories* ; V. G. Kale : *Indian Industrial and Economic Problems*.

**201. Remuneration of Labour.**—As rent is the remuneration of the landlord and interest that of the capitalist, wages are the remuneration of the labourer. Wages are a price paid for the use of labour as rent and interest are prices paid for the use of land and capital. In the last Chapter we considered the dependence of the condition of the cultivator on the system of land tenure ; in this we have to point out the mutual relation of the system of industrial organization and the condition of workmen. The cultivator or tenant, whether he owns his land or not, is a sort of industrial manager, and his profit is conditioned by the nature of the soil, the capital he can command and the rent he has to pay to Government or another landlord. He works in the field he owns or takes on lease and obtains wages for his labour. From the economic and social points of view, the question of wages is, therefore, extremely important.

In practice, it is often difficult to distinguish the share appropriated to labour from that obtained by other factors of production. In agricultural and non-agricultural industries where the workman combines in himself the characters of organizer, labourer, landlord and also capi-

talist, the remuneration due to each one of these agents, it is not easy to point out. But such a workman must receive at least the wages of his labour; otherwise, he will starve or give up his work. Under the modern system of industry, the autonomous workman who manages his own industry, has tended to disappear and a distinct class of labourers or wage-earners has arisen. The factory system, under which the employer engages and controls hundreds and thousands of workmen, has created a cleavage between the two, and the class conflict has become very bitter. Those who command capital, command and control labour; and it is felt by workmen that their share in the joint product, is deliberately and selfishly kept low by the employer.

It is contended on the side of the employers that wages must be determined by the supply of and demand for labour and that they cannot be artificially raised. Strikes and labour agitation for higher wages, are, therefore, futile and suicidal. On the other hand, the wage-earners plead that employers take a disproportionately large share of the joint product and that they must be forced to give up their ill-gotten gains. Labourers, therefore, organize themselves, and by means of collective bargaining, which is substituted for individual bargains, so disadvantageous to workmen, extort higher remuneration and better conditions of work from the employers. The State has passed laws for their protection, and systematic attempts are made to decide disputes between capital and labour by conciliation and arbitration. In the contract between capital and labour, the latter is certainly at a disadvantage and hence the need of protecting and strengthening its position.

**202. Chief Features of the Problem.**—In considering the problem of wages and of the general condition of workmen, we have to fix our attention upon (1) the wage contract, (2) the rates of wages obtained by



different classes of workmen, (3) the factors which govern these rates, (4) the conditions in which labourers have to work, (5) the safeguards the State has provided for the fair treatment of workmen and measures taken for ensuring their safety and health, and (6) organizations of workmen started and conducted to protect and promote the interests of members and to ameliorate their economic and social condition. Unless all these questions are carefully studied, it is impossible to obtain a correct idea of the condition of workmen and the measures which are necessary to improve it.

When it is said that the labour or wages question in India is not as urgent or difficult as it is in other countries, it is not to be supposed that the Indian workman is well off and that little need be done to improve his condition. What the statement means or ought to mean is that the factory system has not yet established itself in this country to such an extent as to create a large class of wage-earners crowded in cities and at the mercy of employers. The bulk of our labourers are autonomous workers, cultivators and handicraftsmen, and a very small proportion are mere receivers of a wage. Most of them live in villages and small towns, and their wages are regulated by custom. But this state of things is being steadily modified on account of a general rise of prices, extension of the means of communication, the increase in the number of factories, the decay of old indigenous industries and a growing tendency towards migration. Labour conditions vary from province to province and industry to industry to such an extent that it is difficult and dangerous to generalise in this matter. An attempt will here be made only to indicate roughly the position of labour in relation to the points noted above.

**203. Labour Contract.**—First, as regards (1) the labour contract, in rural parts of the country, a kind of serfdom still prevails, and it is a relic of old times.

" If a poor man required Rs. 100 to enable him to get married or to clear himself from debt, he would mortgage his service for a period of about five years and receive his Rs. 100 in advance ; while the mortgagee was bound to feed him during the period of service. Many of the Deshmukhs, Deshpandes, and rich landholders engaged labour in this way ; and the practice continued in some degree to quite recent times. In the days when land was available for all, however, it would have been only the very poorest who would mortgage their labour in this way, or even engage themselves as yearly tenants."\*

This old system is, however, rapidly disappearing and the development of society from status to contract, is very rapid. Village economy has been disorganized and the customary relations of different classes and castes towards one another, are changing. The practice of unpaid customary labour is dying out, and the urban and modern system is taking its place. The Government of Bombay, for example, state in their Resolution on the Land Revenue Administration Report for 1908-09, that " in the Surat District, the Anavala Brahmin is losing the services of his halis or hereditary serfs, and everywhere customary tasks at customary wages are giving way to full contracts."

An attitude of independence on the part of labour is everywhere visible and particularly in cities and in centres of commerce and industry. Labourers have become conscious of their importance and of their place in industrial economy, and the growing demand for their services has largely contributed to this result. Domestic servants and unskilled labourers show this tendency as much as factory workers and artisans. A sort of a wage-earner's contract is becoming common and the workers insist upon its terms being strictly observed by the employers. Factory Acts have laid down certain conditions of work and imposed

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\* Keatinge : Rural Economy in the Bombay Decree: page 67.

obligations on the employers, and workmen have realised that they have rights on which they can take their stand.

Another factor that must be borne in mind in this connection, is the constancy or otherwise of employment. When the labourer is bound by contract, he has the advantage of continuous employment, though his wages may be low. Agricultural labourers and workmen engaged in industries which work only during certain seasons, like ginning for instance, are thrown out of employment at the end of the season. The living of most unskilled labourers is, therefore, precarious and they turn from one job to another and suffer when there is no work to do. Higher rates of wages must compensate them for this occasional loss of employment.

**204. Indenture System.**—The system of indentured labour under which coolies emigrated to the Colonies in large numbers, has been strongly condemned as degrading and demoralising and is on the way of total abolition. Indentured emigration to Natal was stopped in 1911, the Emigration Act of 1908 having been suitably amended in 1910 for the purpose at the instance of the late Mr. Gokhale, who, two years later, moved another resolution recommending that Government should "take the necessary steps to prohibit the recruitment of Indian labourers under contract of indenture, whether for employment at home or in any British Colony."† Objection having been taken to his comparison between the system of indenture and slavery, Mr. Gokhale replied :—

"It is true that the system is not actual slavery, but it is also true that it is not far from it. The contract is not a free contract. You have here the right of private arrest, just as they had in the case of slavery. Moreover, the labourer is bound to his employer for five years and he cannot withdraw from the

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† See Mr. Gokhale's Speeches, pages 604-644.

contract during that period. And there are those harsh punishments for trivial faults. Therefore, though the system cannot be called actual slavery, it is really not far removed from it."

A strong case was made out against indentured emigration to Colonies like Trinidad, British Guiana, Jamaica and Fiji, and as a temporary war measure it was stopped early in 1917. The interests of the employers in the Colonies have all along stood in the way, and all arguments in favour of the system such as the economic benefit derived by the labourers, were proved to be unsubstantial in a despatch sent by Lord Hardinge's Government on that subject to the Secretary of State.

In a despatch to the Government of India, dated September, 1917, the Secretary of State for India remarked:—

"I agree with Your Excellency's Government that any new system of emigration must be free from the suspicion of liability to the charges brought against the old system that it was based on fraudulent recruitment; that it involved slavery for men and that it resulted in the prostitution of women."

The question was considered by an Inter-Departmental conference in London and a new scheme for a system of free emigrations assisted by the Colonial administrations was evolved. It is stated that under the new scheme, while all the advantages of the old system are retained and even improved, the emigrant labourer will not be bound to any employer except for the first six months of his stay in the colony. The difficulty of solving the problem lies in ensuring complete liberty to the labourer and at the same time in giving him effective protection against fraud or ill-treatment. Under a free contract, it is pointed out, the position of the emigrant is likely to be worse and all emigration to the colonies will have to be prohibited. In any case, there

must be no return to the indenture system under a new name and Government must stick to the principle that it is not the business of India to supply coolies for the exploitation of the resources of the colonies.

Speaking at a meeting of the East India Association, Mr. H. S. Polak recently observed :—

"When industries and agriculture within the country were starving for labour it was absurdly quixotic to help outsiders to obtain it. There was no way of protecting the ignorant Indian peasant from the tortuous devices of the unscrupulous recruiter. What Indians claimed, if emigration were at all desirable or feasible on a voluntary basis, was not merely an Indian labour settlement, the bulk of whose product and profits would be enjoyed by white planters but an Indian colony in the full sense of the word."

For several years an indentured labour system prevailed in India itself, *e. g.* in Assam, where the tea planters imported coolies for their gardens from the neighbouring provinces. For more than sixty years, 'questions relating to the supply of labour for the tea industry in Assam, the condition of the labourers on the estates and the enactment and working of special labour laws, have attracted much attention and have formed the subject of several detailed investigations by specially appointed committees.' The law in this matter was amended and consolidated by the Assam Labour and Emigration Act of 1901. This Act too was amended in 1908 and a steadily increasing proportion of the immigrant labour was engaged under ordinary contract, Government having gradually withdrawn successive districts in Assam from the operations of the Act of 1901 which authorised an indenture system.

The Assam system had two salient features : penal contract with the labourer enforceable through the criminal courts and provisions for the protection of the labourer. Coolies were recruited through (1) contractors and (2)

garden *Sardars*, persons employed by the planters. Indentured labour has now ceased altogether and recruitment by contractors, which led to many abuses, has been abolished. Labour in Assam is now free, though recruitment is regulated by law and is now controlled by a special Board consisting of representatives of the planters and an officer of Government.

**205. Rise in wages.**—(2) During the last few years, wages of all kinds of labour have risen. The statistics available on this point, are not very accurate and cannot, therefore, be relied on. We have also to take note of circumstances which accompany the money wage in order to find out 'real' wages. From every Province, however, comes the report that there is a general rise in wages. In Madras, for instance, "the wages of unskilled labour have everywhere shown a marked tendency to rise.... Domestic wages have certainly risen, and Government servants on low pay have for several years past, been granted grain compensation allowances.... The monthly rates of wages for farm servants, however, followed the general rise. Wages of artisans also rose." In Burma, "during the ten years (1901-10) the transition from a natural to a money economy has made further progress. Most agricultural labour, however, is still paid in kind, and the field labourer's wages as measured in money have therefore risen in Lower Burma. In Upper Burma also agricultural wages tend to rise, owing to the increased annual exodus of field labourers to Lower Burma."

"In the Punjab, cash wages are steadily displacing old customary wages in kind, the process being in many parts already complete. At the same time wages of unskilled labourers and of skilled artisans have doubled in the past twenty years, the greater portion of the advance having taken place in the last ten years, and in particular since 1905. This increase represents an increase in real wages though not of the same extent as in the rupee equivalent, and marks the operation of the law of supply and demand emancipated from the dead hand of custom."

These instances are typical of what is happening all over the country.

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\* Dominion Moral and Material Progress Report, 1911.

Mr. K. L. Datta has compiled the following table showing nominal and real wages :—

Nominal wages.						Real wages.			
	1895	1900	1905	1910	1912	1895 to 1899	1900 to 1904	1905 to 1909	1910 1912
<b>Rural.</b>									
Agricultural labourers	105	125	147	170	189	103	120	123	134
Village artisans	107	127	149	173	191	105	122	124	135
Average	106	126	148	171	190	104	121	123	133
<b>Urban.</b>									
Skilled labourers	106	122	143	167	183	104	119	120	132
Unskilled "	108	127	151	177	198	106	122	125	135
Domestic servants	104	117	131	147	159	100	116	108	117
Average	106	123	142	165	181	108	118	119	131
<b>Chhota.</b>									
Skilled labourers	105	122	142	167	177	105	118	120	131
Unskilled "	104	121	140	167	179	104	117	120	132
Domestic servants	102	118	134	149	159	102	115	111	116
Average	104	122	139	163	174	105	117	118	128

If different industries are taken, it will be found that the rise in wages has not been uniform. It is curious to notice that 'the coolies in tea gardens appear to be in the worst position, as their *real* wages have fallen 5 per cent. below those in the basic period,' though it is pointed out that these labourers get rice at a fixed rate, generally lower than the market rate. The comparative lowness of the wage on the tea gardens struck the committee which inquired into the question of Assam labour in 1906. The Director of statistics observes :—

"It is interesting to note that the rise in the wages of industrial labour has not been so great as in the case of agricultural labourers and village artisans. Money wages have over long periods increased in all industries, and the rise has generally been greater than or equal to the rise in retail prices except in the tea, sugar and brewing industries. An examination of Indian wage statistics during the last decade shows that this is certainly the labourer's day."<sup>\*</sup>

The rise in wages can, of course, be beneficial to labourers only when the prices of their necessities of life have not gone up in proportion, or the general purchasing power of the money wages has increased. If the field labourer is paid in kind, and food grains become dearer, he obviously benefits; but if he has to purchase food with his money wages, the increase in wages must be greater than the rise in prices. The factory labourer may have to pay more for rent, food and clothing and he may be none the better for enhanced wages. 'In Bengal,' we are told, 'the labouring classes were not much affected by high level of prices. The great majority are field labourers, who are mostly paid in kind. Their wages remain the same, but the value of grain has risen. When they are paid in cash, their wages have increased, notably in Bengal, where the supply of labour is frequently short of the demand.'

<sup>\*</sup> Review of the Trade of India in 1913-14.



Many factors have to be taken into calculation, therefore, in estimating the effect of higher money wages upon the condition of the labourer.

**206. Causes of the Rise.**—(3) The law of demand and supply is, of course, a great regulator of prices and among them of the prices of labour. Workmen of a particular class may be in greater demand at a time and naturally their wages must go up. That is certainly one of the causes of the recent rise in wages in India, and it is intensified by the immobility of labour and, therefore, by a lack of competition. The available supply has also diminished owing to deaths due to plague, which alone has carried off nearly a crore of people since its advent into this country. High mortality among labourers has thinned their ranks and it seems to be an important factor in the situation.

A general rise in prices is another cause of the increase in the scale of wages. Economists have discussed various theories concerning wages, such as the cost-of-production theory, the wages-fund theory, the standard-of-life theory and the productivity theory of wages. None of these theories is satisfactory by itself, though each one of them contains some truth, and they are complementary to one another. Wages will rise if the wealth produced by a community increases owing to greater efficiency or the application of more capital. But the workmen must be sufficiently organized and intelligent to secure their proper share of the increased out-put of wealth. Similarly workmen come to have a certain standard of life which steadily improves and necessitates the payment of a higher wage.

Higher prices and increasing wants regulate the remuneration workmen must receive if they are not tied down by custom. Generally wages lag behind prices and gradually overtake them. Take, for instance, the case of an unskilled labourer in a city like Poona.

The normal daily wage of such a labourer twenty years ago was four annas. But at that time, Bajri used to sell at 16 seers and rice 10 seers a rupee; house rent was low, vegetable oil sold at 4 seers per rupee and, on the whole, necessaries of life were cheap. Now he seldom gets 9 seers of Bajri, 6 seers of rice and 2½ seers of oil per rupee, and it is no wonder if he demands 7 annas a day as his wage.

**207. Factory Life.**—As to (4) conditions of work they depend upon the kind of industry in which the labourer is engaged. Work in the field is, of course, the best from the point of view of the labourer's health, and though village sanitation in India is far from satisfactory, life in the open air and in cottages or small houses is preferable to residence in over-crowded tenements in cities. There is doubtless much sweating in some of the home industries, but on the whole, there is greater freedom enjoyed by operatives engaged in indigenous industries of the old type.

It is machinery, working in stuffy rooms in the midst of noise and constant bustle, and the continuous strain which labour in factories and workshops imposes that tell upon the health of the operatives. The autonomous worker is his own master and he and the members of his family, who may have to work long hours, have still the consciousness of independence and enjoy an amount of liberty which is denied to the operatives working for a master. The latter have to toil at their wearisome task and their lot is often hard. The social effects of the factory system on labourers are very detrimental, especially when women are employed. There is no one to look after the children left at home and the domestic life of the operatives is rendered miserable.

The jobber supplies labour in several Indian mills and acts as a middleman. This system frees the employers

from all worry about the supply of labour, but it places the workmen at the mercy of an unscrupulous person bent upon personal gain. Wages are not paid weekly as in England and operatives have to borrow to satisfy their daily requirements. Wages are usually kept in arrear and are paid weeks after they are due. Children are made to work in factories when they should live a life of freedom in the open air, and this leads to the physical deterioration of the young generation of working men. There is no 'home' for workmen when their wives have also to work in factories. The health of children must suffer under these conditions. The position of artisans, like the carpenter and the mason, is far better; their wages are high; they enjoy great liberty and their work is not so taxing.

**208. Factory Acts.**—(5) It was, therefore, to the factory operatives that attention was early directed, and experience of western countries led the State to legislate for their protection. As textile and other factories on modern lines arose in the country, conditions of work in them had to be controlled in the interest of the operatives. The latest piece of factory legislation is the Indian Factories Act of 1911 which repealed the earlier Act of 1881, amended by the Act of 1891. This last Act provided for the fencing of machinery, and for the promulgation of rules as to water supply, ventilation &c. The hours of employment for women and children were prescribed and the appointment of inspectors of factories was provided for.

The increasing use of electricity in the Bombay mills made it possible for the operative to work for 14 or 15 hours a day, and the industrial boom of 1904-05 made such excessive hours of work notorious. On hearing complaints of such abuses, Government ordered an enquiry to be made into the question by a committee in 1906 and by a commission which reported two years later. The

majority of the commission deprecated any limitation of the working hours of male adults. But they recommended the creation of a class of "young persons" between 14 and 17 years of age who were not to work for more than 12 hours a day, thus indirectly limiting the hours of work for adults to 12. The Act of 1911 shortened the hours of children's and women's work, and as the evil of excessive hours of work was found prevalent in textile factories, it restricted the hours of employment of adult males there to 12 hours a day.

This provision about the limitation of hours of work was regarded as extraordinary, and as an unnecessary encroachment upon individual liberty. Some mill-owners indeed welcomed the restriction as calculated to prove beneficial to the operatives and to enhance their efficiency. But others strenuously opposed the innovation as injurious to the interests of workmen as well as to those of employers. It was said that the evil complained of was not widespread; that the operative did not want the limitation of hours; that they worked willingly for a longer time as they obtained higher wages for the additional work; that the work did not put an excessive tax on the health or the energy of the workers; and that the agitation in the press for restriction, was misleading and not entirely unselfish.

In the course of his remarks on the Factories Bill in the Viceregal Council\* the Hon'ble Mr. Dadabhoi presented the following portrait of the Indian factory worker :—

"The Indian operative is not capable of concentrated or continuous labour or of prolonged and sustained effort. He is by nature not disposed to take his work seriously; he has an incurable habit of spreading the work he has to perform over a long period of time; he invariably works in an easy, careless, perfunctory manner; he must needs loiter in the midst of work, and

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\* 3rd, January, 1911.

he, as though intuitively, makes up for prolonged hours of work by being slack during no inconsiderable portion of his routine work. His work is done neither with strenuousness nor alacrity and compares most unfavourably with the standard enforced in European countries."

The Indian factory labourer has produced the same impression upon visitors from foreign countries. But his laziness and lack of concentration did not justify excessive hours of work at noisy, nerve-racking machines in the midst of surroundings that were bound to tell upon his health. And the accounts which were published, of the conditions in which the mill hands lived and worked and earned their wages, could not but excite the sympathy of the public; and, in the long run, it was felt, the employers themselves were bound to suffer owing to a loss of efficiency in their workpeople. Factory owners are not, however, inclined to look ahead or feel for their labourers as they feel for their profits; and though there are honourable exceptions, this is the usual conflict of interest between capital and labour.

**209. Labour Organizations.**—(6) Labourers in India are almost absolutely unorganized, ignorant and unenterprising.

"For the present the condition of the Indian working man is wonderfully like that of the English working woman. He does not understand his own position well enough to enable him to act effectively. Only the faintest glimmer of Trade Unionism is streaking his horizon with light."†

The Indian factory worker does not usually settle in or near the industrial centre; he has his ancestral home and patch of land, perhaps the property of a joint family, to which he returns during certain seasons of the year. He supplements the family income by his wages as a factory operative.

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† J. Ramsey MacDonald: *The Awakening of India*.

A proletariat is being steadily formed in this country; but it does not yet consist, as in the West, of landless men who have made crowded cities their homes and who have little to draw them away to the village. This is, from one point of view, a satisfactory feature of the workman's life; but from the point of view of the work in the factory, it leads to disorganization and waste. "The employer of labour in this country," it is said, "therefore, "is wholly at the mercy of his operatives."

We hear, now and again, of small strikes among factory hands but the use of this weapon is neither systematic nor sustained. The recent strike among factory workers at Ahmedabad and postmen in Bombay showed how a substantial increase of wages could be obtained by concerted and sustained action on the part of mill hands and also how employers can resist extravagant demands by means of organized opposition. The strike, at present, is only a mild way of ventilating grievances and there are no labour organizations behind the workmen most of whom are illiterate. Neither employers nor workmen, as corporate bodies, have made satisfactory arrangements for the performance of functions which trade unions in the West have taken upon themselves. "The jobber is still the master of the situation and finds it to his interest that there should be frequent changes among the hands." \*

"One finds this industrial class swarming in overcrowded coolie lines, sometimes regimented by an over-seeer to whom the workers owe their job and who in consequence demands commissions from them, sometimes living in ordinary working class parts of the town under exceptionally hard conditions."†

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\* Collector of Bombay, reviewing Report of the Chief Inspector of Factories in 1912.

† L. Romay, *Memoirs*.

**210. Employers' Duty.**—A few conscientious employers are trying to provide good houses and other amenities of life to their workmen and education to their children; and the arrangements made in this connection are satisfactory. The example must, however, spread and employers must realise that action in this direction is as much in their own interest as in that of the working men. No one would like to have here the labour troubles that have now become a common chronic feature of industrial life in the West. But the remedy for this does not lie in keeping workmen ignorant and unorganized; it lies rather in timely measures taken to avoid the mistakes and to prevent the evils of the West. The time is not yet when the Indian workmen may appreciate the remark of a leader of Western labour that "one with an experience of the West must look upon this commercial philanthropy with grave misgiving, whatever immediate benefit it may be to the workers."<sup>\*</sup>

In the face of the illiteracy that prevails in the country and of the apathy on the part of workmen as well as employers, the solution of the problem is very difficult. The operatives are at the mercy of jobbers and money-lenders to whom they are driven by ignorance, extravagance and vice.

"It should always be remembered that the Indian labourer must be led and not driven. He is not as is the inhabitant of western lands consumed by the desire to rise in the world. The caste and joint family system hold him back and he is content with the same simple fare and surroundings as his father had before him. If dissatisfied with conditions of work in the town, he will make no complaint but go back to his village life."<sup>†</sup>

Disorganization of the old social and economic system and illiteracy are the two principal obstacles in the way

<sup>\*</sup> J. Ramsay MacDonald.

<sup>†</sup> Fremont: Report on the Condition of Labour in the United Provinces.

of the promotion of the well-being of the working classes. The problem must be tackled from the two ends, the employer and the workpeople. The employers in their own interest, have to organize the supply of labour and promote its efficiency. The labour population in towns is a floating population and employers are not sure if their money would be usefully spent on its improvement. But it is pointed out that if life in the centres of industry is made more attractive than it now is, the workmen may be induced to live there, more or less permanently, in spite of their attachment to the village home and lands. The proper housing of factory hands, the education of their children and a general improvement in the conditions of work in factories, are directions in which reform is required. There has already been much talk about these questions, but there are only a few isolated instances of employers who have taken them up seriously. On the whole, there is apathy and lack of concerted action in these matters.†

In other countries there are splendid organizations of workmen, and they have now won for themselves an important place in public life. Their action is both beneficent and militant. The trade unions help their members in a variety of ways and try generally to improve the position of the working classes. On the militant side also they have won success, particularly in lessening hours of work and increasing wages, and the State itself has come to the assistance of the labourers by making arrangements for old age pensions, insurance against sickness and dis-

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† In the Tata Iron and Steel Works at Sakchi, up-to-date and ideal arrangements have been made for the housing and the general comfort of labourers.

Employers of labour in several cotton mills and other factories are also making similar provision. 'Welfare funds' have thus been started in connection with certain mills in Bombay and large amounts taken out of profits are to be utilized in promoting the well-being of the operatives. Dispensaries and grain shops are attached to factories and canteens have been erected in the vicinity of mills for housing workmen.



ablement. There is unfortunately a tendency among workmen to go to extremes in the matter of strikes and here they have lost public sympathy which is their great asset.

Unskilled labourers and women are, as a rule, at a disadvantage and have to be content with low wages and unsatisfactory conditions of work. But coolies in docks and other places where great physical strength is required in lifting and carrying about heavy loads, earn high wages. In India, labourers are scattered, except in large industrial centres, and concerted action is impossible in their case. The old caste organizations are unsuited to factory life as in factories there is a promiscuous mixing up of people of different castes. The lives of operatives have to be adapted to their environments so that they may try to improve them. Even where workmen are in numbers, they are helpless, without leaders and without organization. Spread of education among them will alone enable them to understand their rights and to make efforts to improve their condition.

The lot of the labourers engaged in factories, mines, railways and on plantations may be improved by the beneficent action of far-seeing and sympathetic employers, as much as by combined pressure brought to bear upon them by the operatives. In agriculture and the other indigenous industries in which the bulk of the Indian labourers are engaged, combined action on the part of workmen is not to be expected and only the good sense of the employers must be trusted to ensure satisfactory conditions of work and decent wages. There is a large amount of casual labour employed in these industries, and its wages are determined by the number and the needs of the workmen. The employer will usually give his labourers just enough to enable them to keep body and soul together and they are often at his mercy. Such labour is lazy and careless and dear even for low wages.

**211. Summary.**—The labour problem in western countries is mainly concerned with trade unions, strikes, agitation for a minimum wage, syndicalism, and class conflict. In this country, custom still rules in the relations subsisting between capital and labour, which are not sharply marked off. The factory system is in its infancy, and the use of machinery is the exception and domestic industry the rule. A working class is beginning to be formed in large centres of industry and a labour problem in the western sense is just arising. So long as wages are governed by custom and conditions of work in the field and elsewhere are dictated by tradition, labourers are content with their lot. But the old village economy has now been disturbed, and questions relating to labour are demanding attention.

One of the most striking economic phenomena of recent times is the general rise that has taken place in the wages of labour. Demand for labour, skilled and unskilled, has increased and workmen are slowly becoming conscious of their importance and potential strength. Agricultural labour is still paid in kind partially, if not wholly, but money payments are fast being substituted in the place of payments of grain. Scarcity of labour is due, to some extent, to the havoc made by plague and other diseases among the ranks of workmen, but the demand may be easily met if people will leave their ancestral lands and go out where higher wages are to be obtained. Such migration is slowly becoming a common feature of the life of labourers in certain parts of the country.

The relations of employers and workmen are being more and more regulated by contract, and the latter know how to drive a hard bargain. But in agriculture and other industries, a species of serfdom, a relic of the past times, still prevails in certain rural parts of the country and the needy labourers have little freedom in making a favourable contract with the employer. The system of indem-

tured labour under which thousands of Indian labourers emigrated to British and other Colonies, has now practically come to an end, the popular agitation carried on against that demoralizing and degrading system, having produced a strong impression upon the Government. For generations, labourers in Assam were recruited by the tea planters on the same system. Several laws have been made for regulating that system and inquiries instituted; and now indentured labour has disappeared on the tea plantations. Recruiting by means of licensed contractors also has been abolished and a special board has recently been appointed to supervise recruiting which is allowed.

The rise of wages has been general and is partly due to enhanced prices of food grains and other necessities of life. It is believed that on account of a growing demand for labour and high prices, the 'real' wages also have increased in most industries, and the position of the working classes has materially improved. In the absence of education and organization, labourers cannot stand out for better conditions of work, and even in certain indigenous industries, much sweating prevails. But it is particularly in factories of the modern type where complicated machinery is used and hundreds of labourers have to work together at their machines in crowded rooms, that the evil is great. Factory laws have, therefore, been passed in India as in all other countries for protecting the labourers and ensuring their safety and health. Special regulation was necessary in the case of women and children.

With the rise of mills and factories in this country, the State had to enact such laws. The use of electricity in mills, led the employers to make the labourers work for 14 and more hours a day. The operatives made more money by working longer but it was found that the strain was detrimental to their health. The Factory Act of 1911 prohibited the employment of workmen for more

than twelve hours a day in textile factories, where the evil was particularly serious. The other provisions of the Act introduced greater safeguards than the earlier Act of 1891 for the health and safety of operatives, special restrictions being imposed on the employment of women and children.

Working class legislation has done much for the benefit of factory hands and other labourers in western countries, but the organizations of the labourers themselves are doing even more. The factory system in India has not yet established itself on as wide a basis as in the West. The workmen here are ignorant, scattered, unorganized. They must learn the lesson of self-help and efforts must be made to teach them that lesson. It will be years before we have, in this country, powerful labour organizations on the western model. But with the growth of capitalism, we must have strikes and labour organisations, and workmen must systematically protect their interests. Employers also have to realise that a more intelligent, better housed and better fed labour population means greater efficiency of production and higher profits. Some employers have come to understand this and they are doing what they can to improve the condition of labour.

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## Chapter XVI.

### TAXATION.

#### REFERENCES.

Bartable : *Public Finance* ; Seligman : *Essays in Taxation* ; Grise : *National and Local Finance* ; Henry Higge : *National Economy* ; Nicholson : *Principles of Political Economy*, Vol. III ; Strachey : *India, its Administration and Progress, and Finance and Public Works in India* ; Leonard Alston : *Principles of Indian Taxation* ; John Hector : *Indian Fiscal Administration* ; *Imperial Gazetteer of India*, Vol. III ; B. O. Dutt : *India under Early British Rule and India in the Victorian Age* ; Gokhale's *Speeches* ; *Annual Financial Statements* ; V. G. Kale : *Gokhale and Economic Reform, and Indian Administration* ; E. Hilton Young : *The System of National Finance* ; *Report of the Welby Commission on Indian Expenditure* ; *Report of the Decentralisation Commission*.

**212. What is a Tax ?**.—It now remains to consider the claims of the last sharer in the national dividend, viz. the State. The part taken by the State in wealth-creation is indirect and, in certain exceptional cases, also direct. The State is not a parasite which receives an income that it does not earn. It represents the community whose members contribute to its expenses and the State may also receive rents and profits. The methods of raising revenue have varied from time to time and country to country; and popular control over it and over the expenditure of national revenue, depends upon political liberty and constitutional rights enjoyed by the people.

The right of the ruler to take a share of the income of the subject and to levy imposts of various kinds on different forms of wealth produced by the people, has always been recognized in India. A good ruler was expected to levy moderate taxes so that they might not press heavily upon his subjects ; but their range was

usually very wide. The ancient law-givers lay down what shares the king may take and the duty the people owe to him to pay the taxes. In pre-British times, cesses and fees as well as direct and indirect taxes were well-known; and they were all levied on a well-defined and regulated system. The science of finance is a recent growth and the principles of taxation have been steadily evolved. Principles of equity, faculty or ability or benefit derived and equality of sacrifice, have been developed; and the statesman is expected to weigh carefully the social, economic and political effects of the taxes he imposes.

Some of the so-called taxes are merely fees or prices paid for specific services rendered by the State or other public powers. In reality there is no idea of a *quid pro quo*, or of a direct exchange of services involved in taxation, and their membership of society imposes upon people the duty of contributing towards the expenses of the State. A tax has been defined as "a compulsory contribution of the wealth of a person or body of persons for services rendered by the public powers."\* An attempt is, of course, made to make the individual's contribution proportional to his ability to pay, measured by his income, and to make the sacrifice equal. Taxation is also used as an indirect means to promote certain ends which apparently lie out of the province of the taxing-authority. The State determines how much it will require for its annual expenditure, and distributes the amount among various forms of taxation.

**213. Indian System of Taxation.**—The revenue of the Indian Government is made up of different elements: (1) income from its own property, lands, forests, railways leased out to companies, (2) income from its commercial undertakings like railways directly managed by the State, Canals, the Post Office, monopolies of sale, &c. and (3)

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\* Bestall: *Public Finance*.

taxation proper, viz. contribution levied upon the people (i) directly, like the land tax and the income tax and (ii) indirectly, like taxes upon commodities *e. g.* customs and excise duties and upon actions like stamp and registration duties. In India, there are two taxing authorities, the Government of India and the local bodies. The revenues of the latter are extremely small and the bulk of the taxation is imposed by the former, the Provincial Governments being denied the power of independent taxation.

(1) One striking feature of the Indian tax system is the comparatively large proportion the land tax bears to the total State revenue. In a previous Chapter we have dealt at some length with the subject of land and shown that the Indian land revenue is a property tax or a tax on agricultural incomes, that land in India is not, as is oftentimes supposed, the property of the State, and that, therefore, income derived from it cannot be regarded as rent taken from tenants. India is said to be one of the most lightly taxed countries in the world, and this statement is mainly based on the assumption that land revenue is a rent. Sir John Strachey\*, for instance, says:—"The State in India has, at all times, reserved to itself resources which, in other countries, belong to individuals and which render heavy taxation unnecessary. There is certainly no country in the world, possessing a civilized Government in which the public burdens are so light." And further:—"In England taxation supplies five-sixths and in India not much more than one-fourth of the public income."

It must not be forgotten that the Indian system of taxation is the system of a poor and mainly agricultural country and that it is not subject to the control of the Indian people. The land tax had always been the mainstay of all Governments in the world before the development of an extensive and complicated industrial organization. Formerly land was the only valuable property that could be taxed, but now other sources of revenue are much more important, and productive. The economic evolution which is taking place in India is bound to move in the

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\* India, its Administration and Progress.

same direction, and in the future the proceeds of the land tax will bear a smaller ratio to the total revenue of Government than it does at present.

(2) With foreign trade and manufactures expanding every year, with the extension of the means of communication, and with the growth of banking, the present income tax, customs and excise as also new taxes like inheritance duties are sure to assume greater importance. Land revenue is a kind of income or property tax; but other incomes and properties have so far escaped their reasonable burden, though license duties and trade taxes have been tried and a low general income tax has been in existence for over a generation. The Indian tax-system requires readjustment and radical improvement. And the comfort Sir John Strachey administers is no comfort at all, because his remark only shows that India is a poor country and that its tax-system is unsuited to its needs and changing conditions.

(3) Another noteworthy feature is that our customs revenue has been, comparatively speaking, small, and the free-trade conscience of our Government and the pressure of British manufacturers and merchants are mainly responsible for this state of things. (4) Financial centralization and the complete dependence of Provincial Governments on the whim and charity of the central Government in the matter of taxation and expenditure constitute another drawback of the Indian system of finance. (5) A further weakness of the system lies in the poverty of the local bodies whose sources of income are unproductive and inelastic and which are, therefore, not able to undertake those works of public utility which characterise the administration of local authorities in western countries. (6) Lastly, the power of the purse is not in the hands of the people and there is no popular control over taxation and expenditure. Government, therefore, cannot and does not levy taxes which it ought, and does not spend those that are levied in the manner the tax-payers would like them to be spent. We shall bring out these points in the course of the present chapter and shall attempt to show how financial reform of a comprehensive character is an urgent need in India in the interests of the welfare of the people.



We give below a statement of the revenue and expenditure charged to revenue, of the Government of India, in India and in England :—

<i>Revenue.</i>		
	<i>1918-19</i>	<i>1918-19</i>
	<i>£.</i>	<i>(budget).</i>
Principal Heads :—	<i>£.</i>	<i>£.</i>
Land Revenue ... ..	21,391,575	22,358,500
Opium ... ..	1,614,878	3,191,800
Salt ... ..	3,445,305	3,492,200
Stamps... ..	5,318,293	5,928,000
Excise... ..	8,894,300	10,373,700
Customs ... ..	7,558,220	10,714,400
Other Heads ... ..	5,496,175*	10,183,900†
Total Principal Heads ...	53,728,746	66,242,500
Interest ... ..	1,352,119	3,552,600
Posts and Telegraphs ...	3,598,519	4,782,800
Mint ... ..	339,841	376,000
Receipts by Civil Depts ...	1,408,286	1,956,100
Miscellaneous ... ..	772,579	1,295,200
Railways: Net Receipts...	17,625,634	22,983,700
Irrigation ... ..	4,713,159	5,320,400
Other Public Works ...	298,640	304,900
Military Receipts ...	1,369,652	1,532,700
Total Revenue ...	85,207,175	108,346,900

\* Includes £ 1,950,250 on account of Income-tax.

† Includes £ 6,311,200 on account of Income-tax.

*Expenditure.*

	1918-14	1918-19 (budget).
	£.	£.
Direct Demands on Revenue ... ..	9,274,597	10,438,300
Interest ... ..	1,515,653	7,784,300,
Posts and Telegraphs ... ..	3,272,984	3,931,400
Mint ... ..	132,630	170,000
Salaries and Expenses of Civil Departments ...	17,934,199	22,993,000
Miscellaneous Civil Charges ... ..	5,403,804	5,644,700
Famine Relief and Insurance ... ..	1,000,000	1,000,000
Railways: Interest and Miscellaneous Charges..	12,836,107	13,782,000
Irrigation ... ..	3,531,867	3,928,700
Other Public Works ... ..	7,010,038	5,945,600
Military Services . ...	21,265,765	30,532,700
Total Expenditure, Imperial and Provincial ...	83,177,638	106,150,700
<i>Add—</i>		
Provincial Surpluses ... ..	325,692	351,400
<i>Deduct—</i>		
Provincial Deficits ... ..	608,578	446,700
Total Expenditure Charged to Revenue ... ..	82,894,752	106,055,400
Surplus ... ..	...	2,291,500
Total ... ..	85,207,175	108,346,900

The following table will show the growth of revenue and expenditure during the past forty years :—

Year.	Gross Revenue	Expenditure.	Surplus (+) or Deficit (—)
	£	£.	£.
1875-76	51,019,140	49,013,871	+1,668,945
1880-81	50,228,638	52,648,968	—2,420,930
1885-86	48,105,356	49,973,174	—1,867,818
1890-91	54,444,668	51,985,887	+2,458,781
1895-96	59,395,326	58,372,660	+1,022,666
1900-01	66,806,579	65,136,375	+1,670,204
1905-06	70,846,565	68,754,337	+2,092,228
1910-11	80,682,473	76,746,186	+3,936,287
1915-16	84,413,537	85,602,198	—1,188,661

**214. Burden of Taxation.**—Looking to the needs of reform involving additional expenditure, one will easily realize that the people cannot grudge their Government larger contributions in the form of taxes. But two conditions must here be satisfied: (1) that the existing scale of expenditure should be so scrutinised as to result in all possible economy; and (2) that expenditure and taxation should be subject to the rigid control of the representatives of the tax-payers. Neither condition is satisfied in India to-day, and the statement that the people are most lightly taxed, is unwarranted. There is no absolute standard by which to judge of the lightness of the burden of taxation, and the relation between it and the per capita income of the population, must be taken into consideration in judging in this matter. That the administration in India is more costly than it need be, that the country is one of the poorest on the face of the earth and that the

people have little voice in levying and spending the taxes, are facts acknowledged by all.

If the incidence of taxation in India is compared with that of the United Kingdom, after deducting all the non-tax revenue, except revenue from land, and after making every other allowance, it can be shown that people in this country are not lightly taxed. Such comparisons must, of course, be made with great caution as various complex factors have to be taken into account in making the calculations. In the United Kingdom, a population of 45 millions, earning say £ 2,250,000,000 a year, contributed, before the War, in taxes £ 170 million, which means  $7\frac{1}{2}$  per cent. of the per capita income. In British India, a population of 250 millions, earning £ 600,000,000 a year (on the basis of a per capita income of Rs. 35 a year), pays in taxes, say £ 45 millions and the per capita contribution is certainly not less than the above percentage.\* Two countries so differently circumstanced can-

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\* Our attention has been drawn by a friendly critic to the fact that in the above calculation of the amount paid by the British people by way of taxation, we have omitted to include at least £ 90 million levied by the local authorities upon the British taxpayers. If this correction is made, the total amount will be £ 260 million and it will be more than 11 per cent. of the national income of Great Britain and not  $7\frac{1}{2}$  per cent. as we have calculated above.

We have to point out that this omission is common to the two estimates and if local taxation is to be taken into account in the case of the British taxpayers, it must obviously be included in that of the Indian taxpayers also. Well, the revenues raised by district and local bodies, Municipalities, Cantonments, port trusts &c. in 1913-14, amounted to about Rs. 21½ crores. If this amount is added to the national tax revenues in that year, viz. £ 49·2 million (not £ 45 million as we have roughly mentioned in the text) the contribution of the Indian taxpayer comes to about 10·5 per cent. of the income per head. Supposing it is 10 per cent. or even less, because these calculations are admittedly rough, one-tenth of the income or Rs. 3½ out of Rs. 35, the average per head in India certainly involves a greater sacrifice than one-ninth, or Rs. 75 out of Rs. 675 in Great Britain. We do not, however, complain of heavy taxation; it must grow heavier with growing needs of improvement. We find fault mainly with the methods of expenditure and the inequality of the present incidence of taxation. In the future, proportionately more revenue must come out of the pockets of the rich than now.

not be usefully compared; but the above result is obtained if a comparison may be made at all.

**215. The Land Tax.**—Landlords and cultivators must certainly contribute, according to their ability, to the revenue of the State; but not to count the revenue they pay as a tax is hardly correct or fair. Enhancement of the land tax has been made from time to time, and on the theory of State landlordism, it does not require legislative sanction.\* The land tax is erroneously regarded as a rent but is a property tax, and is often calculated to act as a tax upon agricultural income. As such, it must be regulated by the principles which apply to income and other taxes. If the land tax is avowedly a share of the net produce of the land, that is, of income, there is no reason why exemption should not be allowed to a minimum as in the case of the income tax. If a salaried man or a shop-keeper with an income of say Rs. 600 a year, earns exemption from the payment of the income tax, the small cultivator may claim similar concession in the matter of the land tax.

In all countries a land tax is a source of revenue to Governments. In former times, a general property tax was levied but it tended to become a tax on land and houses; and other forms of property, *e.g.* personalty, escaped taxation altogether. These forms of property are now, almost everywhere, brought within the net of taxation. It is, however, produce or income rather than property, that is taxed. Taxes must really be levied upon persons and corporations and not on property, and this is the accepted principle underlying the income taxes of all countries. The State in India has moved in its old grooves all these years and has not modified its policy of taxation so as to suit changing conditions. We do not wish to suggest that

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\* See Decentralization Commission's Report and Government of India's remarks on the subject. The popular demand now is that the land-tax, like other taxes, should be subject to the control of the legislature.

the land tax should be given up; we urge that there should be equality and equity in its incidence and that it should be assessed according to the ability of the tax-payer. To-day the land tax is assessed upon each acre according to fertility and other conditions, irrespectively of the ability of the owner of the land to pay. Because a certain piece of land is presumed to be able to yield a certain amount of produce, therefore, it must pay from a sixth to a tenth of that produce to the State.

The result of this is that the land tax may not be actually paid out of income from land, but out of other earnings viz wages. Why should the agricultural labourer,—because the cultivator is often nothing more,—be made to pay an income tax when craftsmen, artisans, petty shopkeepers and money-lenders, better circumstanced than he, are exempted from it? Simply because land is supposed to be the property of the State which represents the nation? Most of the holdings in rayatwari provinces are notoriously uneconomic and the cultivator has to supplement his scanty agricultural income by work elsewhere.† And yet he must pay the land tax. The indebtedness of rayats is heavy and the land tax may often have to be paid out of borrowings and not out of agricultural profits actually realised. While the money-lender may not pay an income tax, the cultivator who borrows from him has invariably to pay it; and the land tax turns out to be a tax not upon ability but on liability. This is a serious defect of a general property tax and is present in the Indian land tax, at least in the case of poor rayats. The tax is, besides, levied and is raised by mere executive action and it thus offends against most of the important accepted principles of taxation.

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† See Dr. Meen's Life and Labour in a Deccan Village.

The number of landholders paying Rs. 1 to 5 as assessment in a village is very large and the average extent of a holding is between 1 and 2 acres.

Land is better suited to local than national taxation and may be beneficially handed over to local authorities.

Sufficient funds must, of course, be raised by taxation or otherwise to enable the State to perform its duties to the people. India is a poor country with agriculture as its predominant industry. The number of rich people or people who stand much within the margin of subsistence, is very small; and, therefore, a direct tax like the income tax or a succession duty is not likely to be very productive. This is the reason why the land tax occupies such an important place in the tax system of this country. It has also the advantage of being an ancient tax which the people have been paying from time immemorial. A Government, situated as the British Government in India is, has, for this reason, tenaciously clung to it and done its utmost to improve this source of revenue.

**216. Permanent Settlement.**—The permanent settlement of the land tax in Bengal, has been the subject of prolonged controversy. Objection has been taken to it on the ground that it has entailed on the State considerable loss of revenue. While the land tax in the other Provinces has steadily increased and the State has shared in the prosperity of the rayats, it is urged, the Jamindars in Bengal whose estates have steadily yielded them a higher rent, have their tax permanently fixed and have not made their proper contribution towards the growing expenses of the State. This is, in the opinion of the critics of the permanent settlement, grave injustice to other Provinces whose lands have to bear an increasing burden of taxation. The rent received by the Bengal Jamindars from their tenants, has increased fourfold, to more than Rs. 16 crores but the amount of the land tax they pay to Government remains what it was in 1793 viz. a little more than Rs. 3 crores. It is, therefore, suggested that the landlords "must either be bought out altogether, or such

compensation as they may be entitled to be offered to them before any additional contribution can be demanded.”\*

The Jamindars are naturally very tenacious of their rights and resent as an unwarranted invasion of them the mere suggestion of a further taxation of land in Bengal. Apart from all political and social considerations, the argument that ‘many of the present holders are *bona fide* purchasers for value given; that they bought on the faith of the settlement being what it professed to be, a settlement in perpetuity; that any obligations which it is sought to throw upon them, having been allowed to lie dormant and inoperative, must be regarded as non-existent,’ is too weighty to be lightly brushed aside, however desirable it may be that unearned increment should be taxed and the Bengal Jamindars, like other people, should be made to contribute their fair share towards the expenses of the State. And it is not easy for the State to devise a workable scheme for buying up or compensating the landlords.

If we take into account the circumstances under which the Jamindars were confirmed or acknowledged in their position of proprietors who were to retain for their trouble only one-tenth of the rent collected by them from the cultivators and to pay nine-tenth to the Government, viz. the state of utter confusion and waste into which Bengal had fallen, the total failure of all previous efforts to bring order out of this chaos, the great difficulty the Jamindars experienced in collecting and regularly and punctually

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\* “If, therefore, the finances of the country are to be maintained in a state of solvency, either we must impose heavier burdens on the people in new and unfamiliar shapes, raise the cost of living to the poor, exact the highest contribution which can be levied from the other Provinces with each revision of their land assessment—in fine, cripple the country’s resources, arrest its prosperity and disturb its peace—either we must do this or Bengal must pay her fair share of revenue along with the other interests and other Provinces, constituting the Empire. As a measure of justice as much as of necessity, the Bengal settlement must be remodelled, and the fact that the conditions—the purposes or intentions—with which or upon which the settlement was made, have not been fulfilled adds in expressed force to the demand.”—Hector: *Indian Fiscal Administration*.



paying the Jama into the public treasury, the sale of several Jamindaries by auction for default, the infinite mutations which have taken place in the estates, the frequency with which they have changed hands, the measures which have been taken to strengthen the position of the tenants,—if all these things are carefully considered the case of the Bengal Jamindars will be pronounced as strong. They cannot, however, reasonably claim exemption from new or additional taxes which must press with uniform weight upon all classes and with greater rigour upon the wealthy.

**217. Non-tax Revenue.**—The land tax must be removed from the category of sources of what is called non-tax revenue, the latter consisting mainly of Forests and Opium, as also commercial undertakings like Railways, Irrigation works, Post Office and Telegraphs &c. There are, besides, several minor items of income, which are departmental receipts and are in the nature of prices and fees for services directly rendered to the public. They are included in gross but excluded from net revenue. Opium revenue, was, at one time, considerable and, for years, went on steadily increasing as the result of a growing foreign demand but owing to an agreement with China, it has steadily declined and will, in time, almost vanish altogether. This is a heavy sacrifice of income, and is likely to be regarded as quixotic, but it is calculated, at any rate, to yield satisfaction that India has helped a neighbouring nation to put down a degrading vice so rampant in China though excise revenue has gone on merrily increasing in this country.

Forests form a valuable State property of immense possibilities and income from them has steadily increased. It will continue to expand as forest products come to be utilised more and more for industrial purposes. The principle that such properties as forests should always be national, is already in operation in India and the nation

is not likely to lose control over that important asset. The Post Office and Telegraph render great social services and their management by the State has proved exceptionally useful to the public. The payments made by the public to the Post Office are prices for services and stamp duties are taxes on acts.

**218. Railways.**—Indian railways have now become remunerative and constitute a valuable asset of the country. For years, they were not paying concerns to the State and have involved a total loss of about Rs. 60 crores. Since 1904, they have, however, been contributing a fairly large and increasing quota to the national revenue. The total mileage of railways open in 1915-16 was 36,633 and the total capital outlay on all lines, was 537.07 crores. The total gross earnings were 64.67 crores and the working expenses, 32.92 crores. About 72 per cent. of the mileage belongs to the State, the remaining to companies and Native States. The financial results of the working of the State railways are given below :—

	1915-16	1918-19
		(Budget)
	£	£
Capital at charge at end of year...	364,851,000	370,114,000
Net working profit, excluding interest charges.....	17,797,000	22,924,000
Percentage of net working profit to capital outlay.....	4.88	6.18
Net working profit after meeting interest charges.....	4,075,000	9,800,000
Percentage to capital outlay of net profit after meeting interest charges.....	1.12	2.66

The importance of railways for the economic development of the country, is undoubted. But railways having long been a burden upon the State treasury, which could ill bear it, a rapid extension at the cost of the tax-payer,

has been most unpopular. We have also shown in our chapter on the Economic Revolution what effect railways have produced on the indigenous industries of India. Certain commercial interests press for a large annual railway programme, and a standard of Rs. 18 crores a year was laid down only a few years ago. The necessary extensions and improvements of railways must, of course, be effected, but the liabilities must not be increased in such a way that they would lead to a deterioration of the financial position. The Finance Member in 1913 had to administer a warning in this connection to his critics who wanted to hasten the pace. He said that the railways must never be allowed to become, even temporarily, a net burden on the general tax-payer.

"As matters stand, we have in our railways a splendid asset. Let us safeguard that asset. Any admission of doubtful schemes or failure to count in each case the full cost, any disregard of financial considerations, will surely lead to deterioration of a most serious character."

In some countries like Prussia, the railways, as in India, are State property and they are a large source of revenue. The Indian tax-payer, having paid for the railways and suffered losses, it is but due to him that they should be made a permanent source on which reliance may be placed for yielding a substantial amount of revenue. The prosperity of the railways depends upon the character of the monsoon, and their profits have no doubt introduced an element of uncertainty in Indian finance.† Indian finance used to be called a "gamble in rain"; now it is characterised as a "gamble in railways." But if they are properly looked after, as Sir G. F. Wilson suggested, they must prove a splendid financial asset.

\* Sir Guy Fleetwood Wilson introducing the Financial Statement for 1913-14.

† See D. E. Wache's "Railway Finance" and "Recent Indian Finance."

**219. Railway Policy.**—The bulk of the Indian railways have become State property but only a few of them are directly managed by the State, the others being under the management of companies who give the State a fixed share of their profits. Of the 25,000 miles of railways owned by the State, only 8,000 are managed by the State directly, the remaining 17,000 being managed by companies under contracts entered into by the State with them. Whether all the State railways may not be profitably managed by the State, has therefore become a subject of keen controversy. This important question was raised in the Supreme Legislative Council by Sir Ibrahim Rahimtoolla in 1915, who moved that on the expiration of the contract of management with the East Indian Railway Company in 1919, the management of that railway should be assumed by the State. A similar resolution was moved by the Hon'ble Mr. Sarma early in 1918 and as before, opposite views with regard to the merits of State management of railways, were maintained. The views of the two opposite sides may be found summed up in a memorandum on the subject prepared and published by the Railway Board in 1916. From the point of view of economy and efficient management, it is believed, company management is more desirable and a vast railway undertaking in the hands of the State, is deprecated.\* In England, America and France, railways are private property but in Prussia and other countries they are the property of the State, being managed also by the State. We hold that from the financial as well as the economic point of view, State management of Indian railways is preferable.

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\* This view will be found vigorously maintained in a "Note on State *vs.* Company Management of Railways" written by Mr. S. C. Ghose. The case for State management may be summed up in the following two sentences taken from Sir Ibrahim's speech in the Viceroy's Council:—"No one disputes the fact that the railways should be worked on a commercial basis; what we object to is that they should be worked purely on a commercial basis irrespective of every other consideration. All we ask is that in working on a commercial basis care should be had to the economic and industrial interests of this country."

We need not here enter into the history of railway construction in India nor into the details of the controversy regarding the system of their management. State policy in this matter has changed from time to time. Railway construction was carried out for years since the initiation of the enterprise about 1850, through joint stock companies started in England, under contract with the State. The companies were guaranteed interest at 5 per cent. on their capital outlay and in addition half the surplus profits. They were bound to sell their railways to the State after 25 years. This guarantee system imposed a heavy burden on the revenues of the country and was discontinued in 1869.

From 1870 Government began to borrow for railway development by direct State agency. But it was found that under this system progress was extremely slow. The State had, therefore, in 1880, to fall back upon the old guarantee system only modified so as to ensure easier terms for Government. Vigorous efforts have since then been made to push on railway construction and to attract private capital for the promotion of feeder lines by means of tempting terms.

During the War, capital expenditure on railways had to be reduced and they had to be worked at a high pressure. The whole question of railway management and finance must now be threshed out again. The fundamental principles that have to be followed are that the railways which are and which will soon be State property, must be under State management and, therefore, under the indirect control of the people; that their remunerative character must be scrupulously maintained and that they should be worked in such a way that they will encourage national industries and minister to the convenience of the public. Supposing that railways are efficiently managed by companies, it must be borne in mind that they take away annually about a crore of rupees as profit, their

boards of management are in London and are not 'under the control of public opinion in India and that they are more directly interested in making profit than in looking to the convenience or advantage of the Indian people.

The view is held by some that profits from railways, which by their uncertainty, disturb the even course of finance and are not the proceeds of taxation, should not form part of the ordinary current revenue of the country, but should be set apart for being laid out on the expansion and improvement of railways, so that the annual borrowings of capital will be substantially reduced. We are, however, inclined to hold that railway profits which are earned not only after meeting all charges on account of interest on the total amount of capital borrowed for railways but after providing for annuity and sinking fund charges as well, are a legitimate source of revenue to the State and that the tax-payers should not, therefore, be deprived of it.

It must not be forgotten that railways have now become remunerative only after having taken year after year a crore of rupees a year on an average for fifty years and it is but just that the profits should go to relieve the burden of the tax-payer so far as this can be done without detriment to the position of the railways, which are, after all, a commercial undertaking. We entirely agree with Sir William Meyer in the views he expressed on the subject in reply to Sir Dinsha Wacha who would have the railway surpluses earmarked for capital expenditure on the railway programme. Sir William said:—

"On the other hand, if you take Sir Dinshaw Wacha's metaphor and treat the people of India as shareholders in railways, you have got the fact that the shareholder went without any dividends for a long time, because, as Sir Dinshaw has aptly reminded the Council, it was not until after many years that the railways began to pay, and the shareholders may

quite reasonably claim that they should have some reward for their past abstinence. Also, as shareholders might claim in an ordinary business they might say "It is all very well for you to put part of the profit into improving the business, but you must apply part of it in giving us dividends." ‡

**220. Irrigation Works.**—One of the most remunerative and, from the economic point of view, important commercial undertakings of the State consists of irrigation canals constructed and maintained by Government. Wells and often smaller tanks are the property of private individuals, but the larger tanks, and the big canals are State property. In the interests of the country as a whole, it is necessary that canals, so useful to the agricultural industry, and therefore to the well-being of the nation, should be the property of the community.

"Financially considered, irrigation works are classed as 'major' and 'minor' the former being subdivided into (1) Productive and (2) Protective works. The most important irrigation works in India are those classed as 'Productive works' or works the capital cost of which has been wholly or mainly provided from loan funds in the expectation that they will prove directly remunerative and that the net revenue derived from them will fully cover all charges for interest within a reasonable time after their completion."

'Protective works' are not expected to be directly remunerative. For only a few 'minor works' are capital and revenue accounts kept. All expenditure connected with the construction and maintenance of minor works is met from ordinary revenue. It is a long-standing complaint that the State has not paid as much attention to irrigation works as to the railways though the extension of the former is equally vitally necessary from the point of view of agricultural prosperity. During the past fifteen

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‡ Budget Debate, 8th March, 1928.

# IRRIGATION WORKS.

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years, however, the pace has been accelerated and many important works have been executed and are in contemplation, irrigating thousands of additional acres.

The following table shows the financial position of irrigation works :—

<i>Productive Works</i>	1916-17	1917-18 Budget
Capital outlay to end of each year. ... ..	£ 37,120,000	38,104,000
Total receipts including land revenue due to irrigation ...	4,733,000	4,897,000
Total expenses, including interest on debt. ... ..	2,488,000	2,624,000
Net profit. ... ..	2,245,000	2,273,000
Percentage of net profit to capital outlay. ... ..	6.5	5.97
<i>Protective Works.</i>		
Capital outlay to end of each year ... ..	6,166,000	6,897,000
Net loss. ... ..	171,000	198,000
<i>Minor Works.</i>		
Net loss. ... ..	464,000	677,050

**221. Customs.**—In other countries a large amount of revenue is raised from customs. In India, the tariff has all along been on a free trade basis, and a small 5 per cent. *ad valorem* import duty, varied according to the nature of articles, was imposed, the duty on cotton piece goods being only  $3\frac{1}{2}$  per cent, counterbalanced by a corresponding excise duty. It was believed that in a poor country like India, with unlimited undeveloped resources and with abundant raw materials, freedom of exchange



with foreign countries was a primary need. Sir John Strachey observed\* :—

"Here then is a country which, both from its poverty, the primitive and monotonous condition of its industrial life and the peculiar character of its political condition, requires from its Government before all things the most economical treatment of its resources and, therefore, the greatest possible freedom in its foreign exchanges."

Curiously enough, exactly the opposite theory was propounded by a successor of Sir John, Sir G. F. Wilson who pointed out in 1911 that in such a country as India we must rely, for many years to come, largely upon import duties as an important source of revenue.‡ Custom duties constitute indirect taxation of a convenient kind which falls upon almost all classes of people, particularly the higher and middle classes, and has the advantage of being substantially productive.

We have treated the subject of tariffs at some length already§ and need not go over the ground again. It is sufficient to observe that India must depend more in the future on the indirect source of revenue provided by customs duties, import and export. If the country is to make rapid progress. The necessity of meeting the situation created by the War, forced the hands of Government, and in 1916, new import and export duties had to be imposed and the old ones increased.† Sugar, jute and cotton

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\* Financial Statement, 1878.

§ See page 227 above.

† "The general tariff rate on imported articles which stood at 5 per cent. *ad valorem* since its imposition in 1894, was raised to 7½ per cent. with effect from March, 1916. In addition to articles grouped under the 7½ per cent. *ad valorem* rate are those free of duty, liable to duty at special rates, and at 2½ per cent. Gold, living animals, raw cotton, wool, cotton machinery &c., are admitted free; special duties are levied on sugar at 10 per cent., on silver bullion and coin at 4 annas per oz., on silver manufactures at 10 per cent.; coal 8 annas a ton, arms 20

piece goods were the chief articles selected for an increase of duty and it was an eminently wise selection. In 1916-17, the changes in the tariff were calculated to yield an additional revenue of £ 2,150,000. One million £ more was obtained by the enhancement of the import duty on cotton goods from  $3\frac{1}{2}$  to  $7\frac{1}{2}$  per cent. in 1917-18. The rates of the jute duty were doubled and were expected to produce £ 500,000 and a surcharge, yielding the same amount, was imposed on railway goods traffic. Customs yielded £ 5,873,886 in 1915-16; in 1918-19, they were estimated to give £ 10,714,400. The obstinate opposition of the representatives of Lancashire in Parliament to an increase in import duties on cotton piece goods from  $3\frac{1}{2}$  to  $7\frac{1}{2}$  per cent, unaccompanied by a corresponding increase in the excise duty, the Secretary of State's defence of the policy of Government and the attitude of the Liberal and Conservative parties in the matter, proved eminently instructive.

In the absence of suitable direct sources of revenue, customs duties have to be levied on a considerable scale. In imposing these duties, care has to be taken that they will not press hard upon the consumer and give an undue advantage to particular interests. Import duties; it is said, make articles dear to the consumer; but if he is to be taxed, as he has to be, it is better to make him pay in this indirect manner. Lancashire and other freetraders sympathise with the Indian consumer; but it is only the consumer of fine English fabrics and other foreign articles that will benefit by a policy of free imports. If other taxes are levied or increased, the ordinary consumer will

per cent; cigars and cigarettes 50 per cent.....Iron and steel, railway materials, &c., are charged at  $2\frac{1}{2}$  per cent *ad valorem*. The duty on cotton goods is now  $7\frac{1}{2}$  per cent *ad valorem*. The export duty on raw and manufactured jute stands at Rs. 4½ for raw jute per bale of 400 lbs, with a special rate of Rs. 1½ per bale on cuttings and at Rs. 20 per ton for soaking goods and Rs. 32 per ton on bales. The export duty on tea is Rs. 1½ per 100 lbs.—See *Review of the Trade of India for 1916-17*.

be hit much harder and even his food will become dearer. Poorer classes in India are content with country-made goods and they will not be affected by custom duties as they will certainly be if salt and land, for instance, are more heavily taxed. Promotion of indigenous industries, is comparatively a secondary consideration when we are dealing with finance, but it is one which cannot be altogether ignored. As Mr. Austen Chamberlain, the then Secretary of State for India, pointed out to Lancashire manufactures when they protested against the enhancement of the import duty on cotton piece goods, they want a free market in India as a protective measure, and similar protection may be claimed by other interests. Preferential duties are advocated on the above ground by British tariff reformers and the Indian tariff must be framed on the same principle.

**222. Excise and Salt.**—Another indirect tax is the excise, and this revenue is derived from the manufacture and sale of intoxicating liquors, opium and hemp drugs. There has been an alarming increase in this revenue during recent years. This growth is naturally regarded with grave anxiety as the habit of drink is one of the deadliest of evils from which society may suffer. It is, however, stated that, 'the considerable growth of the excise revenue in recent years is due mainly to higher rates of duty and stricter excise control, and does not indicate a corresponding increase in consumption, although some increase has occurred through the expansion of population and the greater prosperity of certain classes.' It is unfortunate that the prosperity of the people should be associated with the growing consumption of liquor. Excise duties are imposed upon intoxicating liquors and drugs for controlling their consumption as well as for raising a revenue. Licenses to manufacture and sell are sold by auction or fees are levied and revenue from this source has fast increased being now more than As. 8 per

head of the population. An interesting discussion took place on this question recently in the Viceroy's Council when Mr. Sarma moved a resolution asking Government to lay down a definite policy for discouraging the consumption of liquors, but the proposal was not accepted. Revenue considerations must certainly be subordinated to the promotion of the physical and moral well-being of the people.

The salt duty is another indirect tax which falls upon and is felt mainly by the poorer classes. It has ever been a favourite source of revenue with Government. It is one of the oldest taxes and the duty is levied on all salt imported into and manufactured in India. It is the only tax, it is said, which reaches the masses and is a minute contribution made by them to the public treasury. In 1882 the rate of the duty was made uniform throughout the country at Rs. 2 per maund and was raised, six years later, to 2½ rupees. Salt is a necessary of life in India, and a duty on such an article ought to be light if it cannot be dispensed with altogether. Only in cases of extreme necessity should the article be subjected to a duty. Since 1903, on the persistent exhortation of the late Mr. Gokhale, the tax has been steadily reduced and it stood at Re. 1 per maund; but it was recently increased on account of the pressure of war conditions. In 1916, the duty was raised from Re. 1 to Re. 1½ per maund and the increased rate was calculated to yield about £ 500,000 additional revenue.

The facility with which the tax can be increased without trouble and change in machinery of collection, is a temptation, which has, however, to be resisted. As the late Rao Sahab V. N. Mandlik said in the Viceroy's Council several years ago, "Salt, like grain, ought to be practically free or if that cannot be, that it ought at least to be taxed as lightly as possible." The fact that even a small reduction in the salt tax, has in-

mediately led to an increase in consumption, shows the importance of this necessary of life to the poorer classes. The salt tax is regarded as a reserve of financial power to be drawn upon in times of need and resembles, in this respect, the English income tax or the land tax in England before it was allowed to be redeemed.

**223. Income Tax.**—The Indian income tax has not been very productive and yielded about Rs. 3 crores a year, until the rate was enhanced in 1916 on a graduated scale on incomes of above Rs. 5,000. This is due to the fact that the people are poor and the number of those who can be assessed is extremely small. Besides, income from land is exempted from this tax, as it has already to bear the burden of the land tax. Then, again, those who would be subjected to a well-designed income tax bringing into its net the wealthy, upper middle, trading and the professional classes and making them pay their due share, are influential people and can resist the imposition of such a tax on one ground or another. Sir John Stachey said :—

“ There is no country where a tax upon incomes is more just than in India, but there has been difficulty in imposing and maintaining it because it has been opposed by the richest and most powerful classes, who alone can make their voices heard. It has long been a reproach to our administration that they have borne no fair proportion of the public burden.”\*

Before the present income tax was first imposed in 1886, there had been in existence the license tax on professions and industries. The financial difficulties of that year compelled Government to devise new schemes of taxation. Import duties and a higher tax upon salt were not to be thought of, and Government turned to the income tax as the only resource left to it. How strong

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\* India, its Administration and Progress.

† Gokhale and Economic Reforms, pages 14-15.

was the opposition of powerful classes to an income tax, may be judged from the speech Sir A. Colvin made in the Viceregal Council on 4th January, 1886, in introducing the License Tax Amendment Bill. He said :—

"The financial history of the last 25 years is strewn with the skeletons of disquisitions on direct taxation and more than one of my predecessors is gibbeted on that dismal golgotha for the part which he took in connection with it...the classes in this country who derive the greatest security and benefit from the British Government are those who contribute the least towards it...I know that what I have said as to the immunity of the middle and upper classes from their due share of the public burdens is as a twice told tale vexing the dull ears of a drowsy man; but it is nevertheless a grievous blot on our Indian administration which urgently calls for removal and which I believe, with patience, prudence and exercise of a little fortitude must and will be removed."<sup>\*</sup>

When the Hon'ble Mr. Dadabhoi moved a resolution in the Viceroy's Council in 1912, recommending that the minimum of income assessable to the income tax be raised from Rs. 1,000 to Rs. 1,500 a year (the original limit of Rs. 500 had been raised to Rs. 1,000 in 1903 in Lord Curzon's time when the treasury was overflowing with surpluses), Mr. Gokhale laid down the following sound maxim.

"The State has to look at the whole scheme of taxation, first, from the standpoint of its own necessities, and secondly, from the standpoint of the comparative ability of the different classes to pay their particular share of the total revenue raised from the community. Now, judged by this standard, I really do not think that the class for which my Hon'ble friend seeks a remission, has any substantial grievance."

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<sup>\*</sup> Proceedings of the Supreme Legislative Council, 1886.

Under the stress of war conditions, Government not only introduced the principle of progressive taxation into its income tax, but also imposed a supertax, in addition, on all incomes in excess of Rs. 50,000 per annum, on a graduated scale.

In the budget for 1916-17, when at last the tax on incomes was increased, all existing exemptions were left untouched and no alteration was made in the taxation of incomes less than Rs. 5,000 per annum. On the principle of graduation, the following rates were fixed for higher incomes :—

From Rs. 5,000 to Rs. 9,999...6 pies in the Re. or  $7\frac{1}{2}$  d. per £.

From Rs. 10,000 to Rs. 24,999...9 pies in the Re. or  $1\frac{1}{2}$  d. per £.

From Rs. 25,000 to and upwards...1 Anna in the Re. or 1s. 3d. in the £.

This increased taxation was calculated to yield £900,000.

The super tax came in 1917 and began in respect of incomes exceeding Rs. 50,000 and was to be levied in an ascending scale as shown below :—

For every rupee of the first Rs. 50,000 of the excess, *i. e.*, between Rs. 50,000 and 1 lakh, 1 Anna per rupee.

For every rupee of the next Rs. 50,000 of the excess, *i. e.*, between 1 lakh and  $1\frac{1}{2}$  lakhs,  $1\frac{1}{2}$  Annas per rupee.

For every rupee of the next Rs. 50,000 of the excess, 2 annas per rupee.

For every rupee of the next Rs. 50,000 of the excess,  $2\frac{1}{2}$  Annas per rupee.

For every rupee of the remainder of the excess *i. e.*, on every thing above Rs.  $2\frac{1}{2}$  lakhs, 3 Annas per rupee.

This is, of course, regarded as a special war measure, but the new principle ought to be made to stay. With increasing demands upon the Exchequer, those who are in a position to pay, ought to be made to make a contribution to the expenditure of the State, proportionate to

their means. If relief is to be granted, it must be granted to petty, resourceless land-holders whose agricultural incomes are taxed through land revenue. Larger incomes, from whatever source they come, agriculture, industry or trade, have to make their reasonable contribution.

**224. Directions of Reform.**—We cannot dissociate the problem of taxation from questions relating to expenditure, the machinery of finance and control of financial administration. It has to be first (1) noted that the administration in India is too costly for the poor country and, wherever possible, expenditure must be reduced, especially by substituting Indian agency in the place of the European. Progress and reform undoubtedly mean greater expenditure and India, poor as she is, must pay the proper price for the advantage of the western methods of administration. But the machinery of Government is more expensive in several parts than it need be and expenditure may be conveniently cut down on many items. Certain ideas of efficiency which dominate the administration at the present moment, must be revised and the spirit of economy must be infused into the administration.

(2) Even when this economy is introduced, the country will indeed have to face a steadily growing expenditure urgently required to promote social and economic reforms. The question of mass education alone will require crores of rupees annually and that reform has been put off from time to time on the plea of want of funds. It will be a delusion to suppose that with a reformed and popular Government, expenditure will decline. If anything, it will increase. The outlay of funds on education and sanitation will, however, return to the people a hundred-fold in increased prosperity and improved well-being. (3) This will necessitate additional taxation if the natural growth of revenue combined with economy does not yield enough funds. (4) The chief



sources of revenue will have to be customs,—import and export duties,—heavier taxes upon larger incomes and inheritance taxes. Increased revenue may also be expected from the existing taxes which will steadily become more productive and also from the commercial undertakings of the State. (5) Imposition of taxes and expenditure of revenue must be brought more under popular control. (6) Audit will have to be independent and more strict. Even in England, in spite of an independent Auditor-General and a standing committee of Parliament to keep a watch on and control expenditure, there is a demand that a more effective check should be devised. In India such control does not exist and the proposal was made before the Welby Commission and repeated recently by Sir Dinsha Wacha in the Supreme Council, that an audit machinery like that in England should be set up here. But Government is thoroughly content with things as they are, and says that though the system is not perfect, it is quite effective. (7) There must be further decentralization\* of finance and Provincial legislatures must be given the power of independent taxation, again, under popular control. And (8) the resources of local bodies must be increased by large assignments or grants-in-aid, so that more may be spent on the promotion of sanitation, village public works, medical relief and education.

**225. Decentralization of Finance.**—At present, Provincial legislatures do not possess powers of taxation and are controlled by the Supreme Government. Greater decentralization of finance will make Provincial Governments more responsible and the freedom allowed to them will enable them to raise larger funds by taxation and to spend them for the benefit of the people. The Government of India is wedded to the system of centralization though the latter has been steadily relaxed in favour of local

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\* See Author's *Indian Administration*, Chapter VIII and Gokhale and Economic Reforms.

Governments; but in time, contributions from the latter to the Central Government must become the cardinal feature of Indian finance and must take the place of the principle of assignments of Imperial revenue to Provincial Governments. The expansion and reform of the Legislative Councils make this change imperative.

The financial relations of the Central Government and Provincial Governments are an important problem involved in the constitutional reforms that are under discussion. Though the provincial Governments in India do not occupy the same position as the constituent states of federated nations like the U. S. A., the progress of this country is not likely to be rapid unless financial independence is granted to the Provinces. Government of India's policy has always been, and it was more marked before Lord Mayo's reform of 1871, to regard its exchequer as the one national exchequer of India and to treat Provincial Governments as subordinate authorities who were to collect and spend funds that were to be assigned to them. For the past fifty years, a slow development has taken place in the direction of provincial decentralization. But Provincial Governments can neither tax nor raise loans independently.

This state of things, must now be replaced by a system under which Provincial Governments have independent sources of revenue and there are no divided heads as at present. For instance, customs, income tax, railways &c. may be entirely Imperial, while land revenue excise, stamps &c. should be wholly provincial. Military, naval and other charges will have to be borne by imperial revenues and the Provinces must make contributions to them on certain fixed principles. This reform was suggested several years ago, but we move very slowly in this country. The grant of fiscal autonomy to the Provinces and the readjustment of the financial relations between

the central and Provincial Governments can be delayed no longer.

**226. Local Finance.**—The financial position of municipalities and local bodies also needs strengthening. They must be given growing sources of revenue and greater control over their own affairs. They will also have to increase their revenue by new taxes, additional rates and otherwise, if they are to discharge their functions efficiently. In 1913-14, the total income of all local authorities, district local boards, municipalities, cantonment committees, port trusts &c, was about Rs. 21½ crores. Of this the revenue of the district local boards was Rs. 7,68,93,890 and that of the Municipalities, Rs. 8,73,45,578. Municipalities raise revenue by imposing Octroi duties and house and water taxes; the local boards have the land revenue cess and there are other sources of income which are not very productive and elastic. The needs of sanitation, improved water supply and communications, medical aid &c, are very urgent and the well-being of the mass of the population depends on what may be spent on these reforms.

This local finance is very important in other countries and the position in India in that connection is unsatisfactory. Mr. Gokhale most successfully brought out this contrast in a speech he made in the Viceregal Council\* in moving his resolution on the resources of Local Bodies. While in England, out of the total revenue, national and local, the share of local bodies is two-fifths, in India it is only one-fifth, and more than one-half of that one-fifth is administered by the State itself.

It is not possible for us here to enter upon a discussion of the principles on which functions of national and local Government are divided and of the several systems in vogue in different countries, with regard to the relation

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\* 13th March, 1914.

between national and local finance. The existing local bodies in India are, so to say, exotics which have not yet taken deep root into the soil, and the importance of reviving indigenous institutions like *Panchayats* has come to be recently appreciated. In whatever form we have these local bodies, they will succeed only if they are thoroughly popular. Functions like primary education and sanitation will, in any case, have to be performed by them and they will have to look after the local roads, bridges, tanks, hospitals and so forth.

Local bodies are at present severely hampered in their work by the paucity of funds, their resources being hopelessly inadequate to the efficient discharge of their functions. Land and other forms of property are the most suitable objects for local taxation. While income from land above a certain limit may be taxed by the central government for national expenditure, local authorities should be allowed to levy a tax for their own purposes on land in their jurisdiction. Land-holders benefit directly from services rendered by local bodies and they will manage the funds supplied by them to those bodies.

In France, local authorities are allowed to add a rate to various national taxes for their own purpose and in Germany, they have their independent income taxes. In India the land tax, with reductions in the case of very small cultivators, may be handed over to the local bodies as a tax upon property while a general income tax which will fall upon agricultural as much as on non-agricultural incomes, may be retained in their own hands by the central authorities.

**227. Land and Local Finance.**—This will sound as a revolutionary proposal, and sudden changes may be deprecated. We shall, however, be content, if the principle of the position here taken up is accepted and the change is slowly wrought. The existing machinery of the assessment and collection of the land tax should be

retained and the proceeds of it should be partly, if not wholly, assigned to local bodies. It may be repeated that the land tax should be a tax upon property or land values and moderate in its incidence, particularly so far as small holders are concerned, the larger agricultural incomes above a certain limit being assessed to the income tax. The existing assessment of the land tax may even be retained if a substantial portion of its proceeds is assigned to local bodies.

It has been already shown that the total burden of taxation in India is not light compared with that of other countries. But the distribution of land revenue between the national Government and the local bodies is most unsatisfactory. Mr. Gokhale says :—

“In England the bulk of the contribution that comes from land goes to local bodies, the Central Government receiving only a very small amount as land tax. In France more than half the contribution from land goes to local bodies. For the year which I have taken into consideration, for every hundred centimes levied by the state from land, there were 130 centimes levied by the Communes and Departments together. In this country, however, the division is in the proportion of 16 to 1, that is, sixteen-seventeenths goes to the state and only one-seventeenth to local bodies. Now there we have really a serious grievance.....If we could get for our local bodies a much larger share of the contribution from land, even if the proportion was not as high as in the West, most of the financial troubles of those bodies will disappear. Of course, my Lord, I do not mean that any large proportion of the land revenue can be transferred at once to local bodies. I urge that, in consideration of this difference, the Government should help our local bodies with large recurring grants.”<sup>10</sup>

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<sup>10</sup> Gokhale in the Viceroyal Council.

It should be noted that a large portion of the revenue of local bodies in other countries is derived from land and if local finance is to improve in India and the functions of local bodies are to be satisfactorily discharged to the benefit of the mass of the population, we must progress along the lines followed by western nations. This will necessitate a suitable adjustment of the existing system to the needs of reform and the abandonment of the prevalent theories about land revenue.

**228. Public Debt.**—We shall close this chapter with a brief account of the Public Debt of India. At the outset, we have to emphasise one peculiarity of the Indian debt viz. that its burden is extremely slight. While the public debts of European countries have run into hundreds of millions of pounds, chiefly owing to wars, the bulk of the Indian debt has been contracted for productive purposes. It must not, however, be forgotten that in the past we have paid off our unproductive debt out of revenue at great sacrifice. India has had her dead-weight debt incurred for wars, expeditions beyond the frontier, war-like preparations and for meeting famine expenditure and deficits. But whenever there were surpluses, they were systematically used for reducing the public debt, which means that the Indian tax-payers have had their burden of debt paid off out of tax-money.

In the time of the East India Company, political and commercial functions of the State were mixed up together. The continued wars which the Company had to undertake, went on adding debt to debt steadily from year to year, though a part of the deficit was supplied from the commercial profits of the Company. The total 'territorial' debt of India in 1792 was £ 7 millions and increased to £ 30 millions in 1829, to more than £ 51 millions by the middle of the 19th century, and to £ 69¼ millions in 1858. The Mutiny made additions to the public debt. It

went up to about £ 129 millions in 1876. The debt stood as follows during the subsequent years :—

31st March.	In Sterling. Mill.	In Rs. 15 Rs. = £1. Mill.	Total £.	Interest £.
1888	84.1	65.4	149.5	6.2
1893	106.7	68.6	175.3	6.7
1898	123.8	74.4	197.3	6.7
1903	133.8	78.2	212.0	7.1
1908	156.5	88.5	245.0	8.1
1913	179.1	95.2	274.3	9.5

The 'ordinary' or unproductive debt was gradually reduced, and the productive and unproductive debts are distinguished in the following table :—

Ordinary and Productive Debt.

	Ordinary.	Productive.			Total.
31st March.	Mill. £.	Railway.	Irriga- tion.	Total.	Mill. £.
1888	73.0	59.2	17.3	57.65	149.5
1893	65.0	91.0	19.3	110.3	175.3
1898	70.0	106.0	21.7	127.7	197.7
1903	59.1	128.1	24.8	159.2	212.0
1908	37.4	117.7	29.9	207.6	245.0
1913	25.0	211.8	37.5	249.3	274.3

Unremunerative debt shrunk in 20 years from being  $\frac{1}{4}$  to  $\frac{1}{5}$  of the total volume of outstanding loans. The reduction reflects approximately the extent to which current revenues have been devoted to capital expenditure. There is a sort of sinking fund arrangement by which to reduce the unproductive debt, while for the redemption of the productive debt provision is made for annuities &c. in the railway expenditure. Interest charges debited to railways, contain items of this description, so that the true profits from the railways are higher than those shown in the accounts. "In any year in which, owing to the use of surplus revenue or deposits for the construction of public works the capital expenditure of the year exceeds the amount of debt incurred in the year, the effect of this system of classification (Ordinary and Productive Debt) is to cause a decrease to be shown in the amount of the ordinary debt." The Debt stood as follows on 31st March, 1913 :—

(a) Permanent Debt.		
Debt for Railways	...	211,832,819
" " Irrigation works	...	37,552,030
For initial expenditure on Delhi	...	119,886
Total of Public Works Debt	...	249,504,785
Balance, being Ordinary Debt	...	24,898,777
Total Permanent Debt	...	274,403,512
(b) Temporary Debt incurred on security of India bills		
	...	NIL.
Total debt (permanent and temporary)		£ 274,403,512

The position at the close of the year 1916-17 was as follows :—

"On the 31st of March, 1917 the Indian Public Debt amounted to £ 285,310,304 (viz :—rupee debt con-



verted into sterling at 1 s. 4 d. the rupee, £ 111,165,580, and sterling debt, £ 174,144,734). There were also other obligations of the Government of India, including Savings Bank balances, Judicial and Departmental deposits, balances of service funds &c. amounting to £ 31,604,377, and the various railway annuities, representing in the present year a charge of £ 994,013."

Government raises, for its capital programme, rupee loans in India and sterling loans in England, and for purposes of railways, the latter are necessary as sufficient amounts cannot be raised in this country. While exchange was unstable, sterling borrowings entailed a heavy charge; that difficulty has now been removed. It is still desirable to raise as much capital in India as possible. Construction and maintenance of railways require, according to the high standard laid down, larger amounts which cannot be secured in this country, and the amount of interest that has to be paid to England increases year after year. The War Loans are, of course, extraordinary loans, and though their success has been gratifying so far as it goes, the total obtained by Government out of the Rs. 150 crores, shows the poverty of the country compared with the abundant wealth of other nations.

**229. War Loans.**—But the fact that the response of the people to the appeal from Government for the first War Loan, exceeded all expectations and reached £ 36 million, taught the lesson that if her resources, limited as they are, are properly tapped, India is capable of yielding large amounts as a contribution to the Public Debt. The War has undoubtedly brought copious funds into the hands of several persons, and this abundance of loanable capital will not be a feature of peaceful times. But it is hoped that Indian people will be able in future to satisfy the annual capital needs of Government and it need not look to London for loans. This will be an eminently desirable development as it will save a steadily

increasing amount of money from going out of the country, in the form of interest to outside investors. The Cash Certificates issued by the Post Office were a novel feature of the war loan of 1917 and they have now become a permanent measure.

People were induced to invest in the war loan through the Post Office and there were also long and short time securities offered. The amounts obtained in 1917 were as follows :—

	Million £.
Main Loan	26.6
Postal Section	2.9
Cash Certificates	6.6
<b>Total</b>	<b>36.1</b>
The loan was distributed as under :—	
5 per cent. long term Loan of	MILL. £.
1919-47 ... ..	2.3
5½ per cent. 3-year War Bonds ... ..	13.2
5½ per cent. 5-year War Bonds ... ..	8.0
	<b>23.5</b>

The experiment of 1917, having proved encouraging, it was decided to repeat it in 1918 and it was arranged that the money raised by means of the war loans should be paid over to His Majesty's Government as part redemption of the war contribution of £ 100 million made by India of which a third had been already paid off. The loans had the welcome effect of placing at the disposal of the Government of India sufficient funds to make disbursements for His Majesty's Government.

The Government of India used to raise temporary loans long ago by issuing treasury bills; but their place was later taken up by the special reserves which are drawn upon in cases of need. But 'the drain on our resources caused by heavy war payments for His Majesty's Government and the Secretary of State's Council bills led us in the middle of October (1917) to introduce a new experi-

ment—the issue of short term Treasury Bills which could be taken at option for periods of 6, 9, or 12 months.' Three months' bills also were issued later on and by the end of the year 1917-18, about £ 30 million was obtained in this way.

**230. Reduction of Debt.**—While our Finance Ministers used surpluses to reduce the unproductive debt, small though it was, the late Mr. Gokhale contended, year after year, that they should have been mainly devoted to the financing of schemes of social reform. Persistent surpluses, he urged, were funds taken out of the pockets of the tax-payers and must either be returned to them through remission of taxation or, much better, be devoted to the spread of education, improvement of sanitation and so on. The following long extract from one of his speeches in the Viceroy's Council, gives a lucid exposition of the Public Debt position in India and of his views in that connection :—

"Sir, what is the amount of our debt? Our total debt is made up of various component factors. There is the permanent or funded debt, There is the temporary or unfunded debt. And there are various funds with the Government, such as savings banks deposits, service funds, special loans, judicial deposits in courts and so forth. Against this the Government have their Railways and Irrigation works, their loans and advances to local bodies, Native State and cultivators, and their cash balances. Deducting these latter from the total debt, what remains is the true ordinary or unproductive debt. Now taking the figures for 1907-8 and bringing them up to date, we find that in 1907-8 the permanent debt in India was 88.55 millions; the permanent debt in England was 156.48 millions, or, in the two countries together 245 millions. That was the funded, permanent debt, that year. The unfunded debt in that year was only 1 million. Then about 20 millions represented special loans, service funds, saving

bank deposits, departmental and judicial deposits and miscellaneous obligations of the Government, or total liabilities of 266.28 millions or 400 crores of the liabilities of the Government. As against this the Government of India had in that year 177.7 millions invested in railways and 29.87 in irrigation works or a total of 207.57 millions under the two heads together. The Railway debt was earning about 5 per cent, the Irrigation debt about 7 per cent. Therefore it was really no debt at all in the sense in which the term debt is used. That accounted for 207 out of 266 millions. Then the loans and advances by Government to various Local Bodies, Native State and cultivators amounted in that year to 13 millions, and the cash balances were 18.6 millions. Thus 239 millions out of 267.28 millions represented the investment and cash balances of the Government, leaving only about 27 millions of real unproductive debt for the country. This was in 1907-08. Since then the position has undergone some deterioration. Of course, there has been additional borrowing for Railways and Irrigation, but we need not take that into account since Railways and Irrigation investments are earning 5 and 7 per cent. interest respectively. But there was a deficit in 1908-09 of 3.74 millions. In 1909-10 there was a surplus of 61 million and this year excluding the opium surplus of 3 millions, there is still a surplus of 49 or half a million. The position therefore during the last 3 years has undergone a deterioration by about 2.64 millions and we must add that to the figure for 1907-08 to find the total unproductive debt at the present moment. This comes to 29.7 millions, say 30 millions. Or if the Finance Minister will prefer it, I am prepared to take the funded unproductive debt, as it appears in our accounts, which is 37 millions. That means making a present of about 7 millions to the Hon'ble Member; but I will do so and will take 37 millions for the purposes of my argument. Now, Sir, what is a total unproductive debt of 37 millions for a vast country like

India? What is such a debt compared with the huge debts of other countries? And is the reduction of this trifling debt a matter of such paramount importance that every thing the Finance Department can lay hands on should be devoted to this reduction to the practical exclusion of all other useful objects, as has been done, during the last 10 or 12 years? Sir, my protest against this policy of the Government has been a long-standing one. Year after year, for the last 10 years, I have been raising my voice in the Council against this policy, but so far without much effect. How does our unproductive debt compare with that of other countries? In England at the present moment, you have a national debt of over 700 millions, corresponding to our unproductive debt. In France it is over a thousand millions. In several other countries it is four to five hundred millions. Even in an Eastern country like China it is about 110 millions, though the annual revenue is much smaller than ours. The Hon'ble Member speaks of the necessity of strengthening our credit. If we look at the rates of interest at which different countries borrow, it will be found that our credit is exceedingly good."<sup>\*</sup>

It was plausibly contended on the other side that a surplus could not be put to a better use than to the reduction of unproductive debt and that a similar sinking fund arrangement existed in Great Britain for extinguishing public debt. What happened in India during the first decade of this century was that surpluses persisted in occurring year after year, averaging about Rs. 4 crores a year. This was due partly to underestimation of revenue and overestimation of expenditure and partly to the existing high level of taxation—an effect of the new currency policy inaugurated in 1899. The surplus revenue ought, therefore, to have been spent on measures of social reform rather than in reducing the public debt. India's unproductive debt has now increased by the addition of

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<sup>\*</sup> See Cokhale and Economic Reforms, pages 219-222.

£ 100 million given as a war contribution to Great Britain. Sinking fund arrangements have been made in connection with this debt. It must be remembered that against this, we have a special reserve of £ 20 million, about £ 34 million of the Gold Standard Reserve and a slightly larger amount belonging to the Paper Currency Reserve invested in England. The public debt position of India will be clear from the following table :—

Debt outstanding on 31st March.	1914-15	1916-17	1917-18 Revised.	1918-19 Budget.
	£	£	£	£
Sterling ...	185,190,358	171,144,784	238,505,584	218,005,584
Rupee Debt—	Rs.	Rs.	Rs.	Rs.
New Loan ...	...	...	...	30,00,00,000
5½ per cent ...	...	4,91,57,255	31,75,34,255	31,75,34,255
5 per cent ...	...	1,10,51,523	27,09,65,523	26,65,65,523
4 per cent ...	3,19,00,000	21,46,54,000	16,16,77,000	15,98,77,000
3½ per cent ...	138,12,21,400	138,02,13,950	118,90,98,950	118,94,58,950
3 per cent ...	8,20,59,300	7,26,69,400	6,51,93,400	6,57,73,400
Treasury Bills...	...	...	41,00,00,000	41,00,00,000
Temporary Loans	11,00,00,000	50,00,000	4,00,00,000	...
Other Debt ...	1,00,84,800	1,00,14,800	1,00,14,000	1,00,14,000
Savings Banks Balances ...	21,84,66,176	25,25,68,358	30,26,37,358	32,00,23,358

**231. Summary.**—The land tax is the most important source of revenue in India, yielding nearly one-fourth of the total income of the Government of India. It is the oldest tax and has ever been the main stay of the rulers of the country. The duty of the subjects to contribute to the expenditure of the king and of the king to spend the taxes so contributed for the good of the people, was recognized in olden times. Various other taxes and cesses

were also levied. The British Government tried to abolish the numerous small taxes which proved vexatious and made the assessment and collection of the land tax more systematic and strict. The land tax is a property tax because it falls upon all land, and it operates in practice as an income tax, being a certain proportion of the net produce or net rental.

In Bengal the land tax was permanently fixed, and even under the rayatwary system, the original idea of the authors of the system was to make the settlement permanent. But the rent theory and the theory of unearned increment, swayed the policy of the State and the land tax has been steadily increased at each periodical settlement. The modern tendency is not to tax property but to tax income; and as the Indian land tax is, to all intents and purposes, a tax upon agricultural incomes, it is necessary that it should be assessed like the income tax, smaller incomes being exempted from payment or being taxed very lightly.

The Government of India derives income also from State property such as forests and monopolies like opium, and its railway property has now become very remunerative. Government has spent crores on the railways which, for years, were a losing concern. Interest upon the capital sunk in them had to be paid out of current revenue. But under contracts with the companies, the railways have been purchased by the State which now owns a major portion of them, though only a few are directly managed by the State. Whether State management would be more economical and desirable, is a question which is being debated at present, and popular opinion inclines to the view that, on the whole, State management would be preferable.

In accordance with the free trade policy of the Government in England, the Indian tariff has been a purely revenue tariff. But owing to the poverty of the people

of India and in view of pressing reforms which have to be undertaken, more reliance will have to be placed upon customs. It was with the greatest difficulty that the import duties on cotton piece goods could be increased in the budget for 1917-18 from  $3\frac{1}{2}$  to  $7\frac{1}{2}$  per cent. without a corresponding increase in the excise. To secure larger revenue Government will, however, have to impose high import and export duties like those levied to meet the exceptional situation created by the war. The salt duty falls upon a necessary of life and must be lowered. The excise is mainly a tax upon a luxury, and a debasing luxury, and must be so regulated as to discourage drinking.

These are the principal indirect taxes, while stamp duties and registration fees are of the nature of charges made by the State for direct services rendered. The income tax in India is comparatively unproductive, and until, owing to the urgent necessities of war, the rate of the tax was increased and a supertax was levied as an extraordinary impost, the wealthy classes, it was believed, were let off lightly. If these classes are made to contribute their due share, the yield of the income tax will be considerable.

The Government of India has assigned certain revenues to the Provincial Governments, which have no powers of independent taxation; and though there has been a steady decentralization of Provincial finance, complete financial autonomy is being demanded for the Provinces. The local bodies are financially weak. They raise revenue by levying rates and cesses, but their income is inadequate to the needs of progress. A portion of land revenue or a share of the excise revenue may be assigned to them with advantage. In any case, the resources of local bodies require to be expanded.

Before India assumed responsibility for a war gift of 150 crores of rupees, the bulk of her public debt was



productive and represented capital invested in railways and canals. The unproductive debt has been comparatively small, and was steadily reduced, surpluses being used for the purpose whenever that was possible. Payment of interest and a gradual redemption of the public works debt, is provided for in the current expenditure of railways. The tax-payers have contributed to make the railways such a fine national asset, that railway revenue must provide an increasing share of total income of Government.

With rigid economy and retrenchment, the existing revenue, growing with a slow but steady pace, will suffice to meet the normal demands of the administration. The additional revenues required to carry out the many pressing reforms, will have to be obtained from customs and the income tax, suitably reorganized. All classes must contribute their proper share, but the principle of progressive taxation must be maintained. Indirect taxation is preferable from the point of view of the mass of the people and luxuries ought to be more heavily taxed.

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## Chapter XVII.

### PRICES AND CONSUMPTION.

#### REFERENCES.

Tausnig: *Principles of Economics*; Fisher: *The Purchasing Power of Money*; Marshall: *Economics of Industry*; J. A. Hobson: *Gold and Prices*; H. F. Howard: *India and the Gold Standard*; K. L. Datta: *Report on High Prices*; V. G. Kule: *Indian Industrial and Economic Problems*; S. K. Sarma: *A Note on High Prices*; G. V. Joshi: *Writings and Speeches*; Decennial Report on Moral and Material Progress of India, 1913; *Prices and Wages in India*; *Annual Review of the Trade of India*; Ramsay Macdonald: *The Awakening of India*; *Provincial Land Revenue and General Administration Reports*; Dr. H. H. Mann; *Life and Labour in a Deccan Village*; *Report on the administration of the Currency Department*; *Reports on the Settlement of Land Revenue*.

**232. Price Levels :—**When we estimate the comparative utility of an object, there emerges the idea of its value. The value of one object may be expressed in terms of other objects when the comparative estimates of their desirableness are stated. There are several theories in Economics in connection with the causes of value with which we are not concerned. What is to be noted is that when value is expressed in terms of money, it is called price, and as barter has disappeared in all civilized countries the question of prices has assumed considerable importance. What is the cause of price, whether it is cost of production or the relation of demand for and supply of goods, need not be here considered. But it is necessary to understand that money is itself a commodity and as values are expressed in money, its own value is an important economic factor.

The rise or fall of the prices of different commodities may be due to different causes. When the supply of a commodity exceeds the demand for it, sellers have to be content with a smaller price the purchaser may be willing

to give. The reverse will happen if the demand exceeds the supply. What will be the degree of the rise or fall, will be determined by the keenness of the demand and the ability of the supply to wait for a turn of the market. Much depends upon the conditions under which the supply is produced, the time required to increase it and the substitutes with which the consumer is likely to be satisfied, and so forth.

Price is, therefore, an illustration of the law of demand and supply. There cannot be a general rise or fall of values, but this phenomenon can take place in the case of prices. Money is a measure of value, and if owing to a change in demand for or supply of it, its own value changes, the change must be reflected in a general alteration in the prices of all commodities. Prices of different commodities are always rising or falling in different degrees, and the changes may be accounted for on the ground of deficiency or excess of supply or of demand. But a more or less uniform rise or fall cannot be so explained and we must look for an explanation of the phenomenon in the change of supply of the common measure of value viz. money.

**233. Quantity Theory of Money.**—A rise of prices means depreciation of money. When prices go up, the purchasing power of money goes down. In fact, the rise of prices and depreciation of money are two aspects of the same phenomenon. The fact that prices go down, means that a smaller quantity of money is sufficient to buy a stated commodity and there is appreciation of money. It is on this relation between prices and the quantity of money in circulation that the "quantity theory of money" is based. The quantity of money includes paper as well as metallic money, because credit very largely expands that quantity; and the velocity with which money moves from hand to hand in exchange transactions, practically adds to the quantity. If the increase in quantity is accompanied by an increase in the

volume of exchange transactions, the price relation will remain unaltered.

Taken with its limitations, the quantity theory of money is perfectly sound and satisfactorily explains the fluctuation in prices.

"In short, the quantity theory asserts that (provided velocity of circulation and volume of trade are unchanged), if we increase the *number* of dollars, whether by renaming the coins, or by debasing coins, or by increasing coinage or by any other means, prices will be increased in the same proportion. It is the number and not the weight that is essential. It is a fact which differentiates money from all other goods and explains the peculiar manner in which its purchasing power is related to other goods."

We shall not here deal with the elementary considerations relating to factors which govern the fluctuation of prices in general and with the nature of customary and monopoly prices. The question of prices in India, as elsewhere, is mainly a question of the operation of the law of demand and supply; and evidence for this is to be found in the rise of the level of prices of food grains in times of famine and scarcity. The defective character of communications and absence of keen competition as also the predominance of custom in the economic relations of people, long governed the course of Indian prices. But the railways which have brought the various parts of the country into closer contact with one another and India itself into intimate touch with foreign countries, have changed the nature of the problem of prices, which are more susceptible than before to changes in the markets of the world.

The history of prices in this country reveals the influence which the character of the monsoon exercises upon their constant rise and fall. Though the improvement of the means of communication has tended to an

equalisation of prices in different parts of the country and to a general rise in them, the prices of food grains, raw materials and of indigenous manufactures are still regulated by the favourable or unfavourable nature of rainfall, the prices of imported goods being but slightly affected from year to year. Varying local prices are fast being replaced by uniform general prices and the country is becoming one common market instead of a series of small local markets as in the past. Retail prices are also being regulated by wholesale prices much more strictly than before. And it is important to note that price levels appear to have been affected by the currency policy of Government and therefore by the quantity of money in circulation.

**234. Course of Prices.**—As we have just remarked, the favourable or unfavourable character of rain, its deficiency and excess, is generally the regulator of prices in India and particularly those of the food of the people. The prices of articles of export, bulk of which are the products of the soil, are likewise similarly regulated, though demand for them in foreign countries is an important factor in their case. The famine prices of 1877-78 and of 1899-1900 and the fabulous cotton prices during the American War of Secession (1861-65) are instances in point. War prices of the past four years are the combined effect of several causes, shortage of shipping, congestion on railways and augmented circulation of money.

The general level of Indian prices began to rise in 1904, and went higher and higher every year, until the rise assumed almost alarming proportions. The index number went up from 100 in a normal year before the rise commenced, to 140 and even to 200 and more in certain cases. The rise was attributed to different causes by different people; and while it was welcomed by some as an indication of growing prosperity, others traced it to the pressure of population on land and the normal deficiency of food supply as also to the currency policy of Government, which had, since 1899, artificially enhanced the value of the rupee. The question was discussed in the press and in the Viceregal Council, and the appointment of a commission of inquiry was suggested. Government thought that the new currency system inaugu-

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rated in 1893 and completed in 1899, had not had a sufficiently long trial and that commissions had always an unsettling effect upon things; they, therefore, deputed Mr. K. L. Datta to collect statistics on the question of high prices and asked him to submit a report thereon to Government.

The following index numbers of prices speak for themselves :—

Year.	Wheat.			Rice.		Bajroo.	
	Delhi.	Calcutta.	Ahmedabad.	Calcutta.	Madras.	Delhi.	Ahmedabad.
1873	100	100	100	100	100	100	100
1891	135	98	122	91	145	151	122
1893	114	96	107	121	150	92	116
1895	110	93	107	100	138	122	134
1897	192	143	187	159	155	208	191
1899	130	98	134	102	177	141	153
1900	168	113	149	110	180	146	201
1903	125	95	94	128	146	115	101
1904	120	101	96	129	148	105	115
1905	147	108	121	142	197	145	146
1906	150	110	133	154	198	171	166
1907	170	126	144	155	218	156	159
1908	220	161	163	191	225	221	206
1909	203	142	155	156	218	167	166
1910	162	114	136	148	205	155	157
1911	149	118	141	142	187	158	167
1913	183	102	175	187	218	168	175
1915	259	.....	189	197	208	229	209

**235. High Prices in India.**—The causes of the high prices, Mr. Datta concluded, were mainly of two kinds :—(1) causes peculiar to India, and (2) causes whose effects were world-wide. Among the former were (i) a decreased production of food stuffs, (ii) an increased demand for Indian raw materials and food products, (iii) development of communications, and (iv) decrease in the cost of transport; and among the latter, the chief were (i) an increased supply of gold, (ii) development of credit, (iii) destruction of wealth in wars and (iv) expenditure on the armaments. Mr. Datta thought that all these causes combined to raise the prices in India and that the rise was not due to any one cause. He was, however, convinced that the prices of food stuffs in this country had risen on account of the fact that the food supply of India, compared with the demand, reached its lowest level in the quinquennium 1905-09 and thus shortage of supply undoubtedly contributed, in no small measure, to the unusual rise in price during that quinquennium.

Broadly speaking, three theories about the rise of prices, held the field : (1) that the large volume of the rupee currency which, under the gold exchange standard system, ceased to be automatic, led to the depreciation of the token rupee; (2) that Indian currency had nothing to do with high prices which could be explained by economic changes of considerable magnitude going on in India and the outside world; and (3) the pressure of population and deterioration of the soil were mainly responsible for the rise of prices. Finance Members like the Hon'ble Mr. Baker and Sir G. Fleetwood Wilson, held the second view, and it was endorsed by Mr. K. L. Datta. Mr. Gokhale and others were inclined to accept the first theory, and some emphasised the third. These views found expression in the Viceregal Council, when the question was referred to year after year.\*

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\* See Gokhale and Economic Reforms; pages 131-137.

That the quantity theory of money applied to the problem, seems to have been admitted by every one; and the difference lay in the emphasis laid upon the different terms in the price equation  $M \times V = T \times P$ , ( $M$ =money,  $V$ =velocity of circulation,  $T$ =trade or volume of exchange transactions and  $P$ =price) and on the part played by the quantity of the token rupees in circulation. Thus Mr. Datta thought that the quantity of money increasing with the expansion of credit and increase in its velocity, prices of food stuffs were bound to increase while the volume of their production remained steady. The Government of India did not, of course, admit the explanation of Mr. Datta about the insufficient supply of food grains.† This theory is only an application of the law of demand and supply and must hold good if proper attention is paid to 'other things remaining the same.'

**236. Currency and Prices.**—Making full allowance for the fact that "India, by its adoption of a gold standard, has been switched on to the currency gauge of the rest of the world and is undoubtedly bearing its share in the price fluctuations to which the rest of the world has been subject,"‡ and for the increased demand for certain of India's products, which has overtaken the supply as also for the pressure of population on a food supply which does not increase, one is led to believe that the general rise of the price level is, to a considerable extent, due to the disproportionately large supply of currency. The spell of high prices ruling in Europe and America has been attributed to the increased output of gold and the consequent expansion of currency and credit all the world over. The same phenomenon is to be markedly witnessed in this country, and the relation between high prices and the Indian currency system seems to be intimate.

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† See pages 152-155 above.

‡ Sir Guy Fleetwood Wilson in the Viceroyal Council



The official view is that the Indian currency system is automatic, that no more rupees are issued from the mints than are absolutely necessary for the purposes of trade and it is the rise of prices which has necessitated the increased coinage of rupees. Government certainly issue rupees in response to the demand of trade, but the output of these token coins has been exceptionally heavy. Mr. Keynes says :—

“The effects of heavy coinage are cumulative. The Indian authorities do not seem to have understood this. They were, to all appearances, influenced by the crude inductive argument that, because there was a heavy demand in 1905-06, it was likely that there would be an equally heavy demand in 1906-07; and when there was an actually heavy demand in 1906-07, that this made it yet more likely that there would be a heavy demand in 1907-08. They framed their policy, that is to say, as though a community consumed currency with the same steady appetite with which some communities consume beer.”†

The total silver coinage at the Indian mints is shown in the following table:—

Crores of Rs.		Crores of Rs.	
1902-03	11.38	1909-10	2.17
1903-04	16.53	1910-11	2.19
1904-05	11.37	1911-12	2.80
1905-06	20.00	1912-13	19.53
1906-07	26.08	1913-14	13.15
1907-08	18.11	1914-15	2.17
1908-09	2.85	1915-16	1.62
	1916-17	32.32	

There was, during the years 1902-1907, a close parallelism between the growing output of rupees and the steadily rising prices. The rupees are not now melted as they used to be before the closing of the mints, as this

† Indian Currency and Finance.

procedure entails a loss. There was a steadily increasing absorption\* of the currency among the people and this inflation must have had a material effect in pushing up the price level. Experience has taught that rupees distributed over the interior of the country in payment for the staple products, do not quickly return to centres of commerce and industry and efforts have sometimes to be made to get this currency back.† If additions continue to be made to the existing stock of rupees, the inflation must raise prices though not in the same proportion, because a part of the currency is required to meet the increasing volume of trade. This is the way in which the unautomatic character of the currency system acts upon prices.

**237. Absorption of Currency.**—Currency is issued in response to a demand for the financing of the export trade in cotton, wheat, jute, oil seeds etc. And the absorption of the currency must bring about inflation. The following figures show the absorption of rupees and half rupees during the past few years:—

Crores of Rs.		Crores of Rs.	
1903-04	+ 10.97	1910-11	+ 3.34
1904-05	+ 7.43	1911-12	+ 11.54
1905-06	+ 18.50	1912-13	+ 10.49
1906-07	+ 18.00	1913-14	+ 5.32
1907-08	+ 3.92	1914-15	— 6.70
1908-09	+ 14.88	1915-16	— 10.40
1909-10	+ 13.22	1916-17	+ 33.81

Gold and notes are taking the place of rupees in the currency absorbed by the people. The experience of the year 1916-17 as to the extremely slow movement of rupees from circulation into the government treasuries, indicates that heavy absorption of currency, year after year, must

\* See Annual Reports of the Currency Department.

† Experience of currency difficulties during the war, confirmed the truth of its statement and Government issued gold to attract rupees back into circulation.

have had something to do with the rise of prices. Similar absorption has recently taken place in the case of currency notes also.

The question of inflation has formed the subject of discussion in all countries during the period of war. The high prices ruling during this period, were admittedly the result of a deficiency of supplies of commodities chiefly on account of the shortage of tonnage. In India the rise in the prices of articles of import has been much greater than that in the prices of articles of local production. The relation between the prevalent high prices and the heavy absorption of currency has been denied by officials. How the two are related it is extremely difficult to determine. But that prices have been pushed up at least partly by the large supplies of currency seems to be certain. Crores of rupees are being spent by Government for war purposes, and the coins and notes put into circulation are slow to return to the state treasuries. Hence the necessity felt, of attaching the metallic currency by means of war loans.

The problem of prices is complex and various factors exert their influence in determining the price levels. Insufficient supply of Indian products, high gold prices ruling in outside markets, a large external and internal demand for Indian products, the expansion of credit—all these factors must be given their due weight. But the peculiar character of the rupee currency, and the manner in which it is issued and is absorbed, cannot be ignored as an important cause of the rise of prices. A rise thus brought about, cannot be complacently regarded as natural and beneficial, and an effort must be made to minimise the influence of that cause by improving the existing currency system. The idea of prosperity induced by high prices is misleading if all the factors causing the rise are not taken into account.

**235. Effect of High Prices.** - In our chapter on Production and Population † we have shown how "if more mouths have to be fed with the same or nearly the same quantity of food, the prices must rise and this rise cannot be an object of congratulation or of consolation in view of the fact already noted that the closing of the other industrial avenues is driving many people on to the land." \* It is superfluous to repeat that the producers of raw materials which command high prices in the foreign markets, must benefit to the extent of the larger margin afforded (i) if the profits are not intercepted by middlemen and (ii) the cost of production is not increased. And raw materials required for indigenous industries must be sufficiently cheap as also the necessities of life of the mass of the population. Then only will high prices prove beneficial.

Cultivators supplying their own labour and producing their own food, receive larger incomes on account of high prices. But those who have to employ dear labour and buy dear food and other necessities of life, cannot be any the better for a higher level of prices. We have shown above that food production in India has not kept pace with the increase of population. A rise in the price of food grains, therefore, which is brought about by insufficiency of supply, can have no beneficial effect upon the community. Even if we take only the producers of food grains, though rising prices must be an advantage to them, it must not be forgotten that to the growing number of agriculturists this must be only a palliative. Cheap food is regarded everywhere as an essential thing to a nation, and we must have rather an abundance of cheap food rather than insufficient supplies of dear food grains.

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† Chapter VII.

\* Page 155.

The country, as a whole, must benefit by a rise in the prices of exported commodities only if there has been no corresponding increase in the prices of imported goods. Mr. Datta observes :—

“India's exports have thus grown considerably in value in consequence of the rise of prices and only a part of this increase goes towards meeting the increased cost of her imports. There has also been a considerable increase in the volume of the imports of many classes of goods required for consumption and the increase in the imports of many classes of goods which were formerly considered as luxuries but are now recognized as necessaries, bear eloquent testimony to a standard of living which is rising higher and higher with the rise of prices and the material prosperity of the country.”†

The true benefit will be measured by the difference between the prices of the exported and imported commodities, their character and their quantity.

**239. Speculation and Prices.**—Prices in the interior of the country are generally regulated by custom and are little affected by the movements of trade in the big towns. It is only in the case of the staple articles of export such as cotton, jute, oil seeds &c. that conditions prevalent in foreign countries affect prices in the districts. Retail prices are not easily disturbed by the fitful currents of wholesale dealings in the larger markets, though the connection between the two, is becoming closer every day.

Concentration and specialization in production make buying and selling upon a large scale necessary. Even a small merchant has to buy in anticipation of the demand he will have to meet and he makes his own calculations as to the quantity and price. There is some risk involved in this purchase of large quantities long before they

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† Report on High Prices.

can be disposed of. But that is the chief function which the merchant performs and for which the consumer remunerates him.

A cotton manufacturer must ensure a sufficiently large supply of the raw material at a reasonable price. Cotton is produced in a certain season and its quantity and price are likely to be affected by several circumstances. He must, therefore, buy in anticipation and must thus indulge in a kind of speculation.

"The essence of speculation lies in forecasting price movements and then buying or selling for a profit. Having made his forecast, the speculator buys if he thinks prices are going to rise, sells if he thinks prices are going to fall. He looks to the future and works on an estimate; he takes the risk of loss if his forecast is wrong in return for the chance of gain if his forecast is right."<sup>2</sup>

Manufacturers and merchants, therefore, buy and sell on contract and certain people specialise in these speculative dealings. Sales and purchases for future delivery are carried on by brokers; and cotton, jute and other exchanges have come into existence in this country. In Bombay and Calcutta, the markets for these staples are controlled by associations of dealers who have their special rules under which speculative transactions are carried on. Speculation, if it is carried on with the definite object of securing and supplying commodities at fixed prices, is socially very useful and has the effect of steadying prices. But there is a bad kind of speculation like the good kind, which degenerates into pure gambling.

A person both buys and sells futures to make his gains and losses even; and there is nothing wrong in this. But many people buy and sell without having the least idea of ever taking or giving delivery when the day fixed for 'settlement' comes. The payment of difference in

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<sup>2</sup> Henry Clay : *Economics*.

the rates fixed involves loss to one of the two parties, because the calculations on which the prices were based may be upset by circumstances beyond his control. Reckless and irresponsible speculators use all kinds of arts to manipulate prices in their own interests and the whole market is thrown into confusion by the manoeuvres of 'bulls' and 'bears'. The ruin of a few people may lead to a widespread disaster and the whole structure of credit may be rudely shaken. The condition of the Bombay cotton market in March and April of 1918 with respect to speculation in Good Broach, whose price was pushed up by 'bull' operators to unprecedented heights, is an interesting illustration in this connection.

**240. Standard of Living.**—With the expansion of currency and the more general use of money, the habits and tastes of people of all classes are changing. In England, wages rose to a high pitch owing to the war and as more money circulated in the country, the working classes spent more and devoted their earnings to the consumption of luxuries which were formerly beyond their reach. Improvement of communications and imports of cheap articles of everyday use from foreign countries into India, combined with rising prices and higher wages, have induced people to consume such articles, and this consumption is producing interesting social effects. Restrictions imposed by caste, religion and custom are becoming slack and new ways are being adopted in eating, dressing, furnishing houses and in other matters.

The growing imports of certain articles of luxury and convenience are taken as an indication of the above change in the objects and methods of consumption and as an unmistakable indication of material prosperity of the bulk of the population. An increasing use of clothing and of clothes of a better quality, the construction of better houses, the consumption of wholesome food in sufficient quantity, improved water supply and sanitation, a

growing habit of reading and a more liberal supply of the sources of innocent amusement and of the general amenities of life,—these will certainly bespeak a higher standard of life. A mere substitution of one article for another, or a mere change of social customs, is by no means, a sure sign of true prosperity.

• The middle and the lower classes of population are doubtless now able to command certain comforts and luxuries which formerly they could not dream of enjoying, and to that extent there are signs of the standard of life rising higher. More money circulates among them than before; but most of the rayats have no stocks of grain, as they used to have, there is scarcity and deterioration of milch cattle, and they do not seem to feel better off in spite of the changes noted above. Whatever prosperity we see is the prosperity of the few and the volume of wealth appears to flow from the countryside to centres of industry and trade and from the mass of the population the middlemen. The following statistics of imports of certain articles of luxury and convenience, are given as a proof of growing prosperity:—

#### Imports of certain Articles of Luxury and Convenience.

	Lakhs of Rs.					
	1908-09	1909-10	1910-11	1911-12	1912-13	1913-14
Sugar and Molasses ...	10.62	11.13	12.62	9.96	13.78	14.47
Kerosine Oil ...	3.32	2.51	2.37	3.25	2.56	2.86
Cotton piece goods ...	32.20	32.82	37.54	41.20	51.80	60.54
Silk ...	1.85	1.85	2.30	2.15	2.55	2.52
Woolen piece goods ...	2.38	1.58	2.43	2.79	2.40	3.06
Apparel and haberdashery ...	1.95	1.92	2.84	2.85	2.75	3.26
Boots and Shoes ...	39	27	46	55	65	74
Copper and Yellow metal ...	1.69	1.69	2.22	1.62	1.76	2.51
Matches ...	75	82	84	88	98	90
Soap ...	41	45	53	62	70	74
Betel nuts ...	87	88	1.08	1.05	1.18	1.23
Galvanised Iron sheets.	1.97	2.42	3.45	2.98	8.83	5.38
	58.33	58.46	69.36	69.91	84.74	97.57
Index No. (taking quinquennium 1908-13 as 100) ...	86	87	99	1.08	1.25	1.44



There is no doubt about the fact that economic changes which are in operation in the country today, are producing far-reaching effects upon the methods of consumption and the general social status of several classes. Many people who have adjusted themselves to the new forms of industrial organization, are now able to earn more than if they had remained in the old grooves prescribed by custom. They continue to be members of the old castes but their standard of living is being raised to that of the higher castes. They live, speak and dress differently and social equality is being created by economic improvement. From the point of view of consumption Indian society no longer wears the old static aspect, and changes are visible on every side. Most of the articles of luxury and convenience given in the above table, are, however, largely for the use of urban population and the masses dwelling in villages have but a small share in that prosperity.

**241. Consumption and Prosperity.**—The increased consumption of imported articles may be an indication of material progress, so far as it goes. But there is the other side of the shield. Mr. Ramsay Macdonald says of the use of articles of luxury by the working classes in India as follows :—

"Better clothes are being worn, cigarettes are beginning to take the place of the hookah, alcohol is being more widely consumed, shoes are more general, umbrellas are becoming more common. The people's wants—too many of them debased—are becoming more costly to meet. As evidences of increased prosperity, I place little reliance upon such facts. These things no more show prosperity than expensive weddings or extravagant funerals."<sup>\*</sup>

An increase in the number of wants is desirable and a larger supply of necessities and comforts is indispensable.

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<sup>\*</sup> The Awakening of India: pages 177-78.

able for material progress. We see physical and intellectual lethargy in the villages and any thing that will shake people out of it, is welcome, but the masses are still uninfluenced for good by modern civilization. And the articles consumed either as substitutes or additions, must not lead to physical deterioration and moral debasement ; and changes in the manner of living, dressing and so forth, must be conducive to healthy physical and moral development. Tea-drinking has already spread into the interior of the country and among all classes of people. In the Bombay Presidency "the rapid multiplication of places of refreshment where tea is sold is remarkable and the beverage is becoming popular with the masses." Workmen, employes and others, find tea to be a beverage which braces the nerves and gives temporary energy. It can be easily prepared and can be had without difficulty at times when it is required.

The substitution of tea for the more wholesome bread and milk as food, cannot, however, be recommended and the prevalence of the tea habit is to be deprecated on this ground. The place of an adequate quantity of cheap, wholesome food of the old kind, can not be taken by drinks and foods of the modern fashion without detriment to the consumer. And many are the martyrs to tea and coffee and, therefore, to dyspepsia and other diseases. The consumption of liquor is, again, on the increase and unfortunately it is shown as a sign of material prosperity. The introduction of money economy is placing money in the hands of workmen who are tempted to spend a large portion of their earnings on liquors and other intoxicants.

It appears that the habit of drinking is fast spreading. The two chief religions of India, Hinduism and Islam, have condemned drink and yet the lower classes are taking more and more to it. Several workmen drink away a large part of

their wages and make themselves and their families miserable. In the Punjab, for instance, we are told that "among all classes the increased means have not been accompanied by a proportionate development of the rational enjoyment of leisure. The Jat, if his religion does not forbid him, spends more time with the bottle and too many find in the excitement of the law courts their only relaxation." This is an illustration of the spread of the evil of drink throughout the whole country and the efforts of temperance reformers have not produced any appreciable effect.

In the second chapter of this book, an attempt has been made to give an idea of the Indian out-look on life and on the material world. There we have referred to the effect of the contact of modern Western civilization with the culture and social organization of India. The economic, social and political evolution which began 150 years ago, is rapidly proceeding and the pace of the progress has been recently quickened. There is a steady approximation to European ideals, in dress, manners and institutions, and the goal of progress is believed to lie in the clothing of Indian spirit in the garb of modern civilization. Dramatic performances, cinemas and vices of all kinds absorb a large portion of the earnings of labourers and traders in towns; and extravagance of the worst sort is seen to eat as a canker into the vitals of the rich among the lower middle and lower classes. The mass of the population in India has not yet experienced the full effects of the impact of the two civilizations, though the reaction of the new forces on the people in the economic, political and social spheres is clearly visible. Changes in production and distribution have been described in the earlier chapters and those in consumption are noticed in the present chapter.

**242. The Masses and Consumption.**—Indian cultivators and handicraftsmen have struck observes as

people of simple habits, sober, contented and God-fearing. But their thriftlessness and extravagance in marriage ceremonies and funerals have attracted a good deal of attention as also their fondness for ornaments; and these are often exaggerated.\* There is extravagance of a sort in these matters among all classes of the community, and debts contracted for social and religious purposes are not regarded as something undesirable. Custom requires that so much shall be spent on festive and mournful occasions and to most people custom is an irresistible tyrant who take a heavy toll of his victims.

• Social reformers have been crying against this evil for years in vain. Factory labourers are no less free from indebtedness than cultivators, as may be seen from the account given below. But there are a few thrifty people; in all the strata of society and the saving habit has to be inculcated and strengthened. Wages earned and saved in towns are remitted to villages to support families on the land. It is an interesting phenomenon that people migrate from the districts to towns for earning a living as factory workers, domestic servants, petty traders &c. and they remit home their savings with which new landed property is purchased and old property is repaired. The social reform movement has not yet touched the lower classes, and it is they among whom it must spread. We have already referred to the indebtedness and poverty of the rayats; and every thing which will make their lives brighter, give them sufficient food, shelter and clothing and raise them physically, morally and intellectually,

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\* See Report of the Deccan Riots Commission.

Mr. Datta says in his Report on High Prices :—“ The Indian cultivator is, as a rule, thriftless and extravagant and much addicted to litigation. He lacks that business education which leads the rayat to restrain his tendency to borrow and which enables him to calculate the result of expenditure whether on improvements or otherwise.”

must be attempted by those who are interested in the uplift of the nation.

The life of the villager is of the simplest kind. Bread of Bajri and Jvari, or of Wheat in Northern India, and Rice in Western and Southern India, accompanied by a small quantity of vegetable, forms the common dietary. Clothing is rough and cheap in the case both of men and women, and according to Western ideas, insufficient. The houses have mud walls and thatched roofs and are kept clean, though ideas of personal hygiene and general cleanliness are at a discount among the lower classes. A few trinkets and holiday clothes constitute their luxuries. Most of the village people and many workers in towns are sunk in chronic indebtedness and unless and until they learn thrift, it is hopeless to expect much improvement in their condition. The standard of life of people of the highest castes among Hindus and among townspeople generally is higher. They are better housed, clothed and fed.

The condition of the depressed classes is everywhere extremely deplorable. These people have to live on the outskirts of villages and towns and they are really outcasts. Their houses and general surroundings are dirty and their habits are filthy. The uplift of these classes is now being taken up as an urgent national problem and strenuous and sustained efforts alone will solve it. The labouring population in towns is fast changing its habits and customs, and this change is very slowly permeating the country side where kerosene, corrugated iron sheets, glass and chinaware, cheap lampware, matches, soap, tea and toys are being introduced into common use.

The Indian cultivator or labourer cannot be compared to the farmer or workman in the West in the matter of wages and the standard of life. They are so unlike each

other. The average income of an American working man's family is calculated at Rs. 2,248, 42 per cent. of which is spent on food and a large percentage is used in buying comforts. The average income per family in the Deccan village of Dr. Mann's inquiry, is only Rs. 218 and it appears 70 per cent. of this is spent on food and about 22 per cent on clothing. He concludes:—"The people in the most sound position are those with small families, with few children, with much land and with few debts. Only 8½ per cent. of families are able to maintain themselves on their land alone, 27 per cent. on land plus outside labour and the remainder appear to be unable at present to reach the standard of maintenance which they themselves set up."

The following summary of the information\* collected in Bombay for the purpose of initiating a movement for redeeming the debts and generally improving the condition of the factory operatives, will prove instructive:—

"A large number of people among mill hands in Bombay who are mostly Marathas hail from the Konkan Districts and a small percentage varying from 20 to 30 come from the Deccan Districts. There are some from Northern India also. The average age of a millhand varies between 29 and 32. Though all classes of people such as middle class Marathas, Kolis, Gaudis, Mahomedans, Mochis, Dheds, and Mahars are working in mills in Bombay, yet the number of Marathas preponderates. In Gujarat a large majority of the millhands consists of Hindoos who mostly come from Gujarat, Kathiawar, and Rajputana. About 25 per cent. are Mahomedans; and a small percentage varying from 5 to 10 of the people of the Depressed Classes is seen there. In Sholapur Mills a number of weavers are seen employed. The average period of stay of those who are now working in Bombay varies between

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\* Debt Redemption Among the Urban Labouring classes—A Paper by Mr. G. K. Devadhar.

12 and 19 years and in Gujarat from 11 to 16. As most of the mill-hands do not entirely depend upon the mill-labour owing to their having some lands in their village, all of them do not bring their families and thus a large number live single and several such people occupy one room. Besides, "bound by strong ties to the land and to the village" they generally go to their native places for one month in a year; but some go once in two years and a few in five years; and now there are nearly 10 per cent. of people who do not go at all; and thus, a small proportion of mill labour may represent what the Indian Factory Labour Commission of 1908 terms the "factory population," "trained from their youth to one particular class of work and dependant upon employment at that work for their livelihood."

Though nearly two-thirds change their service owing to low pay and failure to obtain leave on account of slothness, the remaining one-third stick to one mill. The percentage of literacy among the mill-hands in Bombay has a very wide range. The average in mills where there is a small proportion of millhands practically settled in Bombay, works at 15; but others show a higher average. In Gujarat, the Broach mill has the percentage of 36; while in Ahmedabad the percentage is 16 only; whereas in the Sholapur Mills it is as low as 10. Thus it seems that considering the proportion of literacy in rural areas, continued urban life gives a better impetus to literacy. The average number of persons in a mill-hand's family in Bombay is nearly 4 and the same in Gujarat. The monthly income of the principal wage-earner in a Bombay mill in the spinning department varies from Rs. 10 to Rs. 20; the weavers earn between Rs. 11 and Rs. 25; while the jobbers earn from Rs. 30 to Rs. 75; and in other departments they earn from Rs. 15 to Rs. 25. These incomes are supplemented in many a case by the incomes of other members of his family in Bombay. Thus, roughly speaking the average income of a mill-hand family in

Bombay works at Rs. 22 and per head Rs. 5½. In Gujarat the average per family is about Rs. 20 and per member Rs. 5. From the mass of information about wages it is clear that the unskilled labourer gets generally from Rs. 8 to Rs. 12 per month, while the skilled workman earns very easily a much higher wage. The average monthly expenditure of a family of four persons works roughly at Rs. 18. As a rule these people live within their means but do not save more than an average of Rs. one per head when their earnings are poor; but when the salary is pretty high there is noticed a tendency to make comparatively large savings; and these, as a rule, go into the pockets of the money-lenders in part payment of interest on loans borrowed from them. The habit of drink among these classes is not as wide-spread as it is generally supposed. Nearly 50 per cent of them seem to be total abstainers; 45 per cent drink occasionally and the rest are hard drunkards; so much so that in a few instances women, who in almost all cases are total abstainers, have to support their husbands by their earnings.

As regards indebtedness it may roughly be stated that nearly 80 per cent. of the labourers are indebted. The average of debt per family is about Rs. 125 which is made up of debts incurred in their native places and those that are incurred in Bombay; and the rates of interest generally vary from 25 per cent. to 37½ per cent. on loans taken from the village sowcars to 75 per cent which is paid to the marwaries in Bombay. The mill-hands in Bombay invariably have to borrow from Marwaries at a rate of interest which is scarcely less than 75 per cent. or one anna per rupee per month. In Gujarat where the average of indebtedness is slightly low the ordinary rate of interest in villages is 18 to 25 per cent. whereas the Bania's rate of interest in urban areas is nearly the same as the usurious rate charged by the Marwaries in Bombay. The causes that lead the mill-hands to borrow are nearly common all over,



such as, maintenance of the family, marriage, sickness, social ceremonies, funeral rites, payment of ancestral or old debts, agricultural needs, litigation, &c. &c.; but they have not so much to pay for securing service as others have to do. Among Bombay mill-hands, slightly over two-thirds possess lands and homes of a small value in their villages. In Gujarat a smaller number own lands as the agriculturists do not largely go in for mill-labour. In Sholapur Mills about 40 per cent. possess lands and houses. As would be expected, nearly all possess silver ornaments of a small value and even a few have some cash. A small percentage of people have their lands mortgaged to their money-lenders; almost all of them are willing to join co-operative associations, if formed, for the purposes of credit, store, and life assurance.

The above generalizations apply mainly to factory workers both in Bombay and outside. The conditions of other labourers differ from those of the mill-operatives in some important respects. The sweepers mostly come from Gujarat and Kathiawar and a few from the Punjab. Their incomes are much higher than those of the unskilled labourers in mills, because they make money by private employment and at night some of them even work in the docks. Comparatively they have a high standard of literacy and their habits are extremely temperate. They are generally very frugal, yet their average indebtedness is much higher, i. e. Rs. 250 which in some cases goes up to Rs. 500 because of the conditions of service. They are indebted mostly to Marwadis and to their caste men and sometimes to Bhaiyas and Banias and have to pay interest at various excessive rates such as 60 per cent., 75 per cent. and 120 per cent. per year. Whereas the Mahars, whose average indebtedness ranges between Rs 150 and Rs. 200 and is higher than that of the mill-hands and lower than that of the sweepers, have to pay interest sometimes at 150 per cent, i. e., annas two per rupee per month, the most common rate being 75 per cent.

In other respects their condition is much the same as that of the others. From the above analysis one thing stands out boldly and it is this. When an average labourer comes to Bombay, instead of being able to shake off the burden of his previous debts, he is dragged deeper into the mire of indebtedness by several unavoidable causes and the result is that he is nearly "killed under the pressure of the very exorbitant rates which he has to pay to the sowcars to whom he pawns nearly all the jewels and ornaments he possesses. The money-lender is anxious that his prey should not slip out of his hands and so he cleverly manages to keep him under his clutches as long as he can. There may be some justification for charging a slightly higher rate than the market rate but not certainly so high as 75 to 120 per cent. especially when the people enjoy a fairly good reputation of regularly paying their monthly instalments to the Marwadis who have given them good certificates in this respect and it is in very few cases that they have to go to court. Some Banias and grain dealers charge on credit accounts of grain &c. 150 per cent. to the Mahars and there are a few extremely needy people who even pay 300 per cent. i. e. annas four per rupee per month, to the Kabuli money-lender whose methods of realization are too well-known to need their description here.

These things make it absolutely impossible for the poor man to extricate himself from this dreadful position and he is completely at the mercy of the sowcars. I have known instances of people who for the fear of the sowcars do not even go to their homes for nearly eight days after they have received their pay. The usual practice of these people is to bring the pay to the money-lender who credits it to his account which the borrower can scarcely understand. Then he receives on the same account a fresh loan for the expenses of the month. Thus, a new fetter is forged on his legs. It is commonly known that clever sowcars who deal with these needy classes

generally take from them a bond for twice the value of the amount actually paid, the interest for the period being first deducted. In investigating a case it was brought to my knowledge that the usual practice of a money-lending firm that gave financial accommodation to the poor train-conductors and such other servants was to take a bond of Rs. 50 for a loan of Rs. 25 to be returned in three months; and deducting interest at 75 per cent. stamps and writing charges the borrower would actually receive Rs. 20 for which a bond for Rs. 50 had to be passed. It is here that the special aid of co-operation is sought and the details of some of the existing Debt Redemption Societies given below will show that co-operation can really bring them partial though not perfect relief.

**243. Conclusion.**—(1) The standard of living of the mass of the population is very low. In the interior parts of the country where the bulk of the people live, conditions in the matter of housing, sanitation, food, clothing &c. are unsatisfactory.

(2) Rising prices have benefited a few land-holders, but a large portion of the cultivating classes and agricultural labourers have not benefited by them. The position of merchants, manufacturers, money-lenders and of the urban population of the higher and the middle classes is better. But wages, except in a few instances, have not risen in proportion to the high prices of the necessities of life; and the lot of those who have fixed incomes, is, of course, hard.

(3) The consumption of imported foreign articles is fast spreading in urban areas and new tastes and changing habits bespeak a slow social evolution which is in progress in the country. But people living in cottages are but slightly affected by these influences and continue to lead plain rural lives.

(4) Chronic indebtedness is a serious drawback in the position of the cultivating and the working classes generally and materially curtails their power of production and consumption.

(5) The evil of drink unfortunately is on the increase, and is responsible for a good deal of misery suffered by the lower classes.

(6) The peculiar customs of the people which entail heavy expenditure on religious rites and social functions, on weddings, funerals, &c. entrench upon their small incomes and often drive them into indebtedness and misery.

(7) Another evil to which reference must be made is litigation. Disputes about land and money dealings are a potent cause of ruin to cultivators, craftsmen and labourers. The average number of civil suits instituted in British India is 20½ lakhs, and in 1913, involved a money value of more than Rs. 42 crores. Fifty five per cent. of the suits instituted in 1913, were for amounts not exceeding Rs. 50, and 95 per cent. of the whole number were for sums not exceeding Rs. 500. The disputes involve a lot of expenditure to litigants; and cheap justice, by means of the institution of panchayats and otherwise, seems to be necessary. Factionousness is a feature of village life and modern administration of justice is very costly.

(8) The joint family system is an important economic factor, and an average Indian family is an association for consumption as well as for production. Partitions of real property are indeed common and usually render production inefficient. The joint family system has its advantages and drawbacks. It renders living economical and conduces to the protection of the weak and the aged. But it likewise chills enterprise and puts a premium on idleness. Bickerings among the members of a joint family are common and their life is rendered miserable,

(9) The instinct of charity is strong in India, and owing to the prevalence of private, individual charity, the need of the poor law does not exist. Orphanages, hospitals and other institutions for the relief of the weak, the helpless and the suffering, have indeed come into existence, and there is immense scope for their increase and development. The problem of sturdy beggars and mendicants who consume without making any contribution, direct or indirect, to the production of communal wealth, is urgent in India. There is a waste of consumption going on in this direction which must be controlled and reduced. Charity must be diverted to more useful channels conformably to the needs of national progress.

(10) Luxuries of a sort people of all classes will always require. But wasteful luxuries indulged in by the higher classes, must be curtailed if the people in the lower strata of society are to have the means of a decent existence. The earnings of the latter will have to increase so that they may command the necessities of life in adequate quantities. Railways, steamships, the post office, the telegraph and other agencies of modern civilization are slowly bringing new conveniences and comforts of life within the reach even of the poor. But it has been stated above that from the point of view of consumption, there is no real and substantial improvement in the lot of the lower classes of society, particularly of the rural population.

(11) The rude rural plenty of the olden times, no doubt varied by frequent scarcity, has been now replaced by a uniform shortage of food stuffs. Cheap food of a better quality must be made available to the middle and lower classes. Sanitary dwellings, nourishing food at cheap prices, ample supply of pure water and decent clothing are the needs of the urban and rural population.

The lack of these cannot be compensated by the consumption of the so-called luxuries.

(12) The average income per head of the population is low to a degree and is not sufficient to afford the means of a healthy and comfortable living. The extravagance spoken of in connection with the Indian masses, must, therefore, be understood in a comparative and limited sense. There is yet much room for thrift even here and with proper care a small income may be made to go a long way and much waste may be avoided. Saving and useful expenditure must be encouraged and the spread of education is calculated to bring about a good deal of improvement in this respect.

**244. Summary.**—When value is expressed in terms of money, it is called price. Prices of commodities will rise or fall if people are prepared to pay more or may pay less for them. The law of demand and supply operates here and prices are determined by the quantity of supply on the one side and the intensity of demand, on the other. Values being expressed in money, the supply of the media of exchange, exerts very great influence on the course of prices. A rise of prices is the same thing as depreciation of money and a fall means the enhancement of the purchasing power of money. The fluctuations of prices are shown by index numbers.

Prices may rise under a monopoly and will be lowered under the influence of competition. When the supply of certain kinds of commodities runs short, e. g. the supply of food grains in times of famine, prices go up, that is a certain unit of money purchases smaller quantities or a larger amount of money must be paid to buy the same quantity of goods. Different causes, operating either on the demand or the supply, will raise and lower prices. But when the general level of prices is affected in either direction, we have to turn to the quantity of money in circulation for an explanation.

This quantity theory of money satisfactorily accounts for changes in price levels. Prices were low in old times, because the quantity of money in circulation was small and the commodities commonly consumed were plentiful. Only those articles were dear, of which the supply was limited. During the last few years, prices have gone up all the world over, and this depreciation of money is set down to the increased production of gold and the consequent expansion of currency and credit. India has now been brought into intimate contact with the markets of the outside world and the general rise of prices has extended to this country.

The rise of prices in India, which began about the year 1904, could have been caused either by an inadequate supply of commodities or by an increase in the quantity of money in circulation. Mr. K. L. Datta who made an inquiry into this question for Government, concluded that the supply of food grains in India having failed to keep pace with the growth of population, their prices rose; and in the case of the other commodities he attributed the rise to a variety of causes some peculiar to India and the others operating throughout the world. Those who expressed the view of Government, declined to believe that the quantity of rupees issued from Indian mints had anything to do with the rise of prices which they attributed to other causes, such as the expansion of credit, extension of communications and so on, while the critics of the Indian currency system held that the general rise of the level of prices was brought about by the enormous circulation of the token coins which exceeded the demand.

The social and economic evolution which is going on in the country, has resulted in a steady change in the methods of consumption. Food stuffs have become dearer within the last few years, and though the railways enable the transport of food grains from one part of the

country to another in times of scarcity and even in normal times, the total quantity of the stuffs has not increased in proportion to the population. Tea has indeed become a common thing, and among the higher classes, other articles of food are being used as substitutes or additions. Among them, there is a tendency to adopt western methods in the matter of dress, housing and furniture and a demand for these articles has led to an increase of the imports of the commodities calculated to satisfy the new wants. The imports of cheap foreign articles has stimulated their consumption on an increasing scale.

In towns enjoying facilities of railway communication changes in this direction are well marked and they are slowly penetrating even the countryside. Operatives working in factories, require more clothing and a larger variety of it and they spend their earnings on other things which were luxuries before or which they could not have thought of using on account of their outlandish character. Consumption of liquor is unfortunately spreading fast among the lower classes, and on the whole, it appears that higher wages have not led to any physical and moral improvement in these people.

The westernising tendency is proceeding rapidly in the country though the bulk of the population living in villages, is yet unaffected by it. The standard of living is rising among classes of workers whose wages have increased; but the rude plenty which characterised agricultural and urban life in the past is no longer to be seen. Spread of education, the adoption of western ways of life, and the establishment of the modern system of administration and law are tending to improved sanitation and an increasing enjoyment of material comforts. Certain evils which western civilisation and modern industrial organisation have, however, brought in their train, have to be combated as they arise. Indebtedness is a chronic com-



plaint from which the working classes suffer most, and though on the whole, they are simple and sober, there are certain directions in which much avoidable waste is going on; and this waste has got to be prevented. The Indian working man does not compare unfavourably with the operative in other countries except that his earnings and standard of living are much lower.

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